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IMPACT OF COAL IMPORTS ON THE DOMESTIC COAL INDUSTRY

HEARING

BEFORE THE

SUBCOMMITTEE ON NATURAL RESOURCES
DEVELOPMENT AND PRODUCTION

OF THE

COMMITTEE ON
ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

ON THE

IMPACT OF COAL IMPORTS ON THE DOMESTIC COAL INDUSTRY

JUNE 6, 1985

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IMPACT OF COAL IMPORTS ON THE DOMESTIC COAL INDUSTRY

THURSDAY, JUNE 6, 1985

U.S. Senate,
Subcommittee on Natural Resources
Development and Production,
Committee on Energy and Natural Resources,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room SD-366, Dirksen Office Building, Hon. John W. Warner presiding.

Present: Senators Warner, McClure, Murkowski, Nickles, Johnston, Ford, and Rockefeller.

Also present: Robert L. Terrell, professional staff member; and Linda Mason, professional staff member for the minority.

OPENING STATEMENT OF HON. JOHN W. WARNER, A U.S. SENATOR FROM THE STATE OF VIRGINIA

Senator Warner. Today the Subcommittee on Natural Resources Development and Production will hear testimony from a wide variety of witnesses regarding the impact of coal imports on this Nation's coal industry.

The testimony today will focus principally on imports of steam coal destined for our domestic utility market from foreign suppliers that have either previously exported steam coal to the United States or those who now intend to do so. The countries of South Africa, Australia, Poland, and Canada have all, at one time or another, exported coal to the United States.

The impetus for today's hearing is the recent entry by the Republic of Colombia into the coal export market. Although steam coal imports last year amounted to only 1.3 million tons, or below 0.2 percent of domestic production, this Senator is gravely concerned about what might be in store for our coal industry in the coming years.

Clearly, the future adverse impacts from foreign coal imports on domestic production and employment can and will be serious if we just stand by and not analyze the causes. Here at home we must address such factors as high production costs, compliance costs for pre- and post-mining environmental regulations, rail rates, inland waterway costs, utility procurement practices, tax and royalty schedules, and the prospect of acid rain legislation and present controls on acid rain.

And I will put the balance of my statement in the record, out of respect for our distinguished minority leader, the senior Senator from the great State of West Virginia, with whom I have had many, many pleasant and productive hours of discussion and work in the area of energy and, most particularly, coal.

We welcome you, Senator Byrd, as our leadoff witness.

[The prepared statements of Senator Warner and Senator Wallop follow:]

STATEMENT OF SENATOR JOHN WARNER
COMMITTEE ON ENERGY AND NATURAL RESOURCES
JUNE 6, 1985 - 9:30 A.M. - 366 DIRKSEN

GOOD MORNING.

TODAY, THE SUBCOMMITTEE ON NATURAL RESOURCES DEVELOPMENT AND PRODUCTION WILL HEAR TESTIMONY FROM A WIDE VARIETY OF WITNESSES REGARDING THE IMPACT OF COAL IMPORTS ON THIS NATION'S COAL INDUSTRY.

THE TESTIMONY TODAY WILL FOCUS PRINCIPALLY ON IMPORTS OF STEAM COAL DESTINED FOR OUR DOMESTIC UTILITY MARKET FROM FOREIGN SUPPLIERS THAT HAVE EITHER PREVIOUSLY EXPORTED STEAM COAL TO THE U.S. OR THOSE THAT NOW INTEND TO DO SO.

THE COUNTRIES OF SOUTH AFRICA, AUSTRALIA, POLAND AND CANADA HAVE ALL, AT ONE TIME OR ANOTHER, EXPORTED COAL TO THE U.S.

THE IMPETUS FOR TODAY'S HEARING IS THE RECENT ENTRY BY THE REPUBLIC OF COLOMBIA INTO THE COAL EXPORT MARKET.

ALTHOUGH STEAM COAL IMPORTS LAST YEAR AMOUNTED TO ONLY 1.3 MILLION TONS, OR BELOW 0.2 PERCENT OF DOMESTIC PRODUCTION, I AM GRAVELY CONCERNED ABOUT WHAT MIGHT BE IN STORE FOR OUR COAL INDUSTRY IN THE COMING YEARS.

CLEARLY, THE FUTURE ADVERSE IMPACTS FROM FOREIGN COAL IMPORTS ON DOMESTIC PRODUCTION AND EMPLOYMENT CAN AND WILL BE SERIOUS IF WE JUST STAND BY AND LET IT HAPPEN.

I SAY THIS NOT AS AN ADVOCATE FOR PROTECTIONIST ACTION AGAINST FOREIGN COAL SUPPLIERS, BUT AS ONE WHO BELIEVES THAT WE MUST EXAMINE ALL FACTORS WHICH INHIBIT OUR ABILITY TO COMPETE IN THE WORLD COAL MARKET.

HERE AT HOME WE MUST ADDRESS SUCH FACTORS AS HIGH PRODUCTION COSTS, COMPLIANCE COSTS FOR PRE AND POST MINING ENVIRONMENTAL REGULATIONS, RAIL RATES, INLAND WATERWAY COSTS, UTILITY PROCUREMENT PRACTICES, TAX AND ROYALTY SCHEDULES, AND THE PROSPECT OF ACID RAIN CONTROLS.

ON THE INTERNATIONAL SCENE, WE MUST LOOK AT DOLLAR EXCHANGE RATES, COST OF CAPITAL, TAX AND SUBSIDIES, TRANSPORTATION RATES, STRUCTURE OF THE FOREIGN COAL EXPORT INDUSTRY, AND OIL AND GAS PRICE FLUCTUATIONS.

OBVIOUSLY, CHANGES IN ANY OF THESE FACTORS CAN AND HAVE HAD PRONOUNCED IMPACTS ON OUR COMPETITIVE POSTURE.

INCREASING THE CONSUMPTION OF U.S. COAL HAS BEEN AND WILL CONTINUE TO BE ONE OF MY HIGHEST PRIORITIES IN THE U.S. SENATE.

IT DEPENDS ON FINDING NEW AND BETTER WAYS TO MINE COAL, TO TRANSPORT COAL, TO EXPORT COAL AND TO BURN COAL CLEANER AND MORE EFFICIENTLY.

-MORE-

THE WORLDWIDE COMPETITION FROM OTHER COAL-PRODUCING NATIONS IS FIERCE - NOT ONLY IN THE COAL EXPORT MARKET BUT ALSO FROM COAL IMPORTS.

DESPITE ALL THE DIFFERENCES OF OPINIONS OF TODAY'S WITNESSES, I KNOW INCREASING THE CONSUMPTION OF AMERICAN COAL AT HOME AND ABROAD IS A GOAL WE ALL SHARE.

WORKING TOGETHER I AM CONFIDENT WE CAN MEET THE CHALLENGES OF MAKING AMERICAN COAL COMPETITIVE IN THE WORLD MARKET AND INDEED FIND NEW MARKETS.

BEFORE WE PROCEED WITH OUR VERY DISTINGUISHED FIRST WITNESS - THE MINORITY LEADER - THE CHAIR WISHES TO COMMENT BRIEFLY ON A DEPARTMENT OF ENERGY STAFF WORKING DRAFT, INTERIM TECHNICAL REPORT ENTITLED "EFFECTS OF RAIL REGULATORY REFORM ON COAL AND ELECTRICITY."

OUR SECOND WITNESS TODAY, THE ASSISTANT SECRETARY OF ENERGY FOR ENVIRONMENT, HEALTH, AND SAFETY WILL OUTLINE THE PRELIMINARY STAFF FINDINGS IN THIS REPORT.

TO QUOTE FROM THE COVER PAGE OF THE REPORT, "THIS IS A DRAFT INTERIM REPORT PREPARED BY DOE STAFF. THE VIEWS PRESENTED IN THIS REPORT REPRESENT STAFF LEVEL PERSPECTIVE ONLY - NOTHING IN THIS PAPER SHOULD BE CONSTRUED AS THE VIEWS OF THE DEPARTMENT OF ENERGY OR THE SECRETARY."

THAT IS A FACT, AND ANYONE WHO ASSERTS OTHERWISE IS WRONG.

-MORE-

THE CHAIR ASKED THE DEPARTMENT OF ENERGY TO MAKE THE PRELIMINARY FINDINGS IN THE DRAFT REPORT A PART OF THIS HEARING RECORD BECAUSE IT IS RELEVANT TO THE SUBJECT OF COAL IMPORTS.

WITHOUT AGREEING OR DISAGREEING WITH THE CHARGE, THE CHAIR ANTICIPATES THAT SOME WITNESSES TODAY WILL ASSERT THAT RAIL RATES ARE MAKING AMERICAN COAL UNCOMPETITIVE AND THAT IS WHY THEY ARE TURNING TO IMPORTS.

MY PURPOSE IS NOT TO APPLAUD OR REJECT THE REPORT BUT TO PUT ITS PRELIMINARY FINDINGS ON THE RECORD.

THE WRITTEN HEARING RECORD WILL REMAIN OPEN FOR TWO WEEKS FOR ADDITIONAL COMMENTS.

ALSO, I AM WRITING TO THE CHAIRMAN OF THE COMMERCE COMMITTEE - WHICH HAS JURISDICTION OVER THE STAGGERS ACT - REQUESTING THAT HE HOLD AN OVERSIGHT HEARING ON THE REPORT.

DEPENDING UPON THE RESPONSE OF THE COMMERCE COMMITTEE, IT MAY ALSO BE APPROPRIATE FOR THE ENERGY COMMITTEE TO DEVOTE AN ENTIRE HEARING TO THE REPORT AT A LATER TIME.

I WELCOME ALL OF THE DISTINGUISHED WITNESSES APPEARING BEFORE THE SUBCOMMITTEE TODAY AND LOOK FORWARD TO YOUR TESTIMONY.

THE RECORD FOR THIS HEARING WILL REMAIN OPEN FOR A PERIOD OF TWO WEEKS SO THAT OTHER WRITTEN STATEMENTS MAY BE SUBMITTED AND TO PERMIT THOSE TESTIFYING TODAY TO RESPOND TO WRITTEN QUESTIONS THAT MAY BE SUBMITTED TO YOU SUBSEQUENT TO THIS HEARING.

WE WILL NOW PROCEED WITH OUR FIRST WITNESS.

###

STATEMENT OF SENATOR MALCOLM WALLOP

SENATE ENERGY COMMITTEE
SUBCOMMITTEE ON NATURAL RESOURCES AND PRODUCTION
OVERSIGHT HEARING ON
THE IMPACTS OF COAL IMPORTS ON THE DOMESTIC COAL INDUSTRY

JUNE 6, 1985

Mr. Chairman. I must admit that the findings contained in the Commerce Department's International Trade Administration's April 1985 Report on the Potential for U.S. Steam Coal Imports not only highlighted the potential impact foreign coal imports could have on America's coal industry, but produced a rather high "Btu level" in this Senator's blood pressure as well.

While no combustion point was reached, I would have to admit -- given the fact that my state of Wyoming ranks third in the nation in total coal production, behind Kentucky and West Virginia -- the report did increase an already high level of concern about the present and future well-being of Wyoming's coal industry and the overall competitive potential of this vital domestic energy industry both at home and abroad.

As the report points out, coal imports to date have not made any appreciable impact on the U.S. market. Yet, a cause for concern -- not panic -- is very real and I applaud the Chairman for the timely scheduling of this hearing.

There were three aspects of this report which particularly captured my attention about coal imports, especially those from Columbia. First, was this statement: "The largest tonnages of domestic coal production which could be most affected by high-Btu, low-sulfur, imported coals come from Wyoming and Montana subbituminous coal-producing states."

The second pointed out that any competitive edge imported coal might offer at the power plant depends on its distance from the country of origin, and went on to highlight that the potential appears to be among those power plants close to coastal ports along the Gulf Coast or accessible by the inland waterway and the St. Lawrence Seaway/Great Lakes systems.

And, the final footnote was that many of the plants in these locations have long-term contracts expiring after 1990.

Obviously, these factors would have a substantial impact on the future ability of Wyoming coal to compete in both domestic and foreign markets. Permit me to site a few Wyoming facts of life. In 1983, my state produced 112.2 million short tons of coal, about 14 percent of our nation's total and nearly one-fourth of our surface-mined coal. Five of the ten largest coal mines in 1983 are located in Wyoming and nine other mines in the state ranked in the top twenty. And, although coal production in the state shows yearly increases, the number of persons employed at Wyoming mines has decreased since reaching a peak of 6,211 employees in 1980.

Since that time, 810 jobs have been lost, and with an overall state population of barely one half million every job lost makes an impact on the energy-dependent economy of my state.For example, in 1983 coal contributed about $117 million in revenues which help fund Wyoming's education system, highways, water development, impact assistance, parks and recreation, and other public programs including the Wyoming Permanent Mineral Trust Fund.

To further illustrate some possible damaging aspects of foreign coal on the Wyoming's coal industry, I'd like to point out that Wyoming coal was used in twenty three states in 1983 with 84 percent of the coal shipped to out of state customers. Texas is now the largest consumer of my state's coal followed by Wyoming, Kansas, and Oklahoma with smaller amounts going to Iowa, Arkansas, Illinois, Nebraska, Wisconsin, Colorado, Louisiana and Missouri. These first four states used over half the coal produced in Wyoming.

Finally, nearly 98 percent of all coal mined in Wyoming was used by the electric utility industry, and ninety percent of Wyoming's coal was transported by rail in 1983. On this last point, and I realize these hearings are not the forum to discuss railroad rates, but these rates do comprise 30 to 70 percent of coal's delivered price, and in my way of thinking pose more of an immediate threat to the competitive nature of domestic coal than do imports at this time.

Not to diminish the very real threat of imported coal, however, I believe this hearing also will expose the spoke of contributing factors that can support, or deflate the wheel of our domestic coal industry. A few of these factors would include: transportation costs within the United States, the strong dollar abroad, the depressed oil market and the present downward trend in oil prices and its affect upon fuel switching in European and Pacific Rim markets, environmental regulations and their compliance costs, utility procurement practices, and production costs, and even more recently the potential changes in the tax code for mining interests for percentage depletion and the accrual of reclamation costs.

Overall, and even above the import issue, I believe this supporting spoke will determine how far and how fast the American coal wheel can travel across both land and sea. And, by examining the import question, especially as it relates to the proximity aspect of Columbian coal, we will be forced to ask ourselves: What does it take -- what steps are necessary -- to get our coal to market within the boarders of the United States, or Europe or the Pacific Rim? I believe in answering this question, we will eventually have to deal with the "supporting spoke" factors.

In the meantime, however, we must look at the issue of imported coal and explore whether or not it is subsidized unfairly by its mother countries. And, if it is, perhaps, just perhaps, trade remedies should be looked at. Today, is a look at that first chapter.

STATEMENT OF HON. ROBERT C. BYRD, A U.S. SENATOR FROM THE STATE OF WEST VIRGINIA

Senator BYRD. Mr. Chairman, I thank you for your kind introduction. I want to commend you for holding these hearings on the impact of coal imports on the domestic coal industry.

These imports, if not presently, certainly will eventually in all likelihood affect your State and my State, and not for the better, I should think. I know that you share my concerns for the future of the domestic coal industry. I appreciate the opportunity to appear before this committee, which is holding hearings on this important issue.

On January 10 of this year I wrote to you, Mr. Chairman, expressing concern with respect to the economic and employment impacts of foreign coal imports on the domestic coal industry. We have subsequently discussed the subject and, if I may, with the consent of yourself and the committee, I would like to insert into the record that letter of January 10.

Senator WARNER. Without objection.

[The letter referred to follows:]

Robert C. Byrd, W. Va., Chairman
Ernest F. Hollings, S.C.
Quentin N. Burdick, N. Dak.
Claiborne Pell, R.I.
John Glenn, Ohio
Walter D. Huddleston, Ky.
Alan Cranston, Calif., Ex Officio (as whip)
Daniel K. Inouye, Hawaii, Ex Officio
(as secretary of conference)

[illegible]
Staff Director

United States Senate
Democratic Policy Committee

Policy
Legislative Review Committee
Dale Bumpers, Ark., Chairman
William Proxmire, Wis.
Lloyd Bentsen, Tex.
John Melcher, Mont.
Daniel Patrick Moynihan, N.Y.
Gary Hart, Colo.
J. James Exon, Nebr.
Paul S. Sarbanes, Md.

January 10, 1985

The Honorable John Warner
United States Senate
Washington, D.C. 20510

Dear John:

I am writing to call your attention to an issue about which I am concerned, and which I believe merits the attention of your Committee. As you may be aware, the South American nation of Colombia has recently opened a new surface mine, known as "El Cerrejon," which produces high quality, low sulfur coal. The mine is a joint venture between Exxon and the Colombian government, with financial and other assistance from American companies and the Export-Import Bank. The El Cerrejon mine has a productive capacity of 15 million tons per year, which makes it one of the largest surface mining operations in the world. More significantly, the total productive capacity of the El Cerrejon mine is directed to the export steam coal market in Western Europe and the United States.

For a variety of reasons, Colombian coal may be very competitive in domestic markets, and may displace domestically-produced steam coal in utility boilers in the Gulf Coast region. In fact, I understand that one Florida utility has already agreed to purchase Colombian coal, and a number of other utilities on the Gulf and East Coasts are considering such purchases.

The extent of Colombian coal market penetration in U.S. markets is uncertain, as is the economic impact of foreign coal imports on the Appalachian and Midwestern coal industries. However, I do not believe that we should wait to find out what those impacts will be. Indeed, Colombia is not the only coal-producing nation which is competing with domestic coal producers for U.S. markets. Other nations, such as South Africa and Australia, have been aggressively marketing their coals in the United States.

At current levels of about 1.2 million tons per year, coal imports may not be a problem of crisis proportions. Nonetheless, it is a matter of some concern. Foreign coal producers may enjoy certain economic advantages over domestic producers. For example, production costs for producers in countries such as Colombia and South Africa may be lower than those for American producers because of differences in the level of environmental and health and safety regulations imposed on coal producers in these countries. To the extent that foreign producers enjoy such advantages, foreign coal imports may become increasingly attractive in several important steam coal markets in the United States. The result could be reduced domestic steam coal production in states such as West Virginia and Virginia, and the loss of coal mining jobs.

I believe the Congress should make an effort to assess the extent to which there are, or will be, adverse impacts from foreign coal imports on the domestic coal industry. There are also a number of other related issues about which information should be developed in order to determine the extent to which foreign coal imports should be a matter of public concern. For example, to what extent do coal imports from other nations enjoy government subsidies? To what extent do foreign coal imports enjoy a competitive advantage over domestically-produced coal?

In order to develop the necessary information, I urge you to schedule hearings before your Subcommittee to examine the issues related to Colombian coal imports, and the importation and marketing of coal from other nations into the United States. I know you share my concerns, especially with regard to the Colombian coal situation. I look forward to working with you on this issue.

Sincerely,

Robert

Robert C. Byrd

cc: The Honorable John Melcher

RCB/RI/AA

Senator BYRD. I suggest that Congress must have pertinent information about these impacts in order to determine the degree to which coal imports should be a matter of public concern Today's hearing is an important first step in developing that information, and so I congratulate you for your leadership on this issue.

Mr. Chairman, can you imagine your reaction if you were to read in tomorrow's newspaper that Saudi Arabia is importing oil? The Saudis probably would have the same reaction when they read that the United States, the Saudi Arabia of coal, is importing coal.

I emphasize that current levels of foreign coal imports, about 1.3 million tons in 1984, although a relatively small amount, are a cause and should be a cause for concern. Coal imports have been higher. In 1978, U.S. coal imports reached 2.8 million tons. When compared to total U.S. coal production and consumption, these levels may not be alarming. But it should be recognized that the United States represents a large and attractive market for foreign coal producers.

Coal producers in Colombia, Canada, Poland, South Africa are aggressively and successfully marketing their coal on the east coast and on the gulf coast of the United States. The east and gulf coast utility market account for nearly 30 percent of U.S. coal consumption, and they represent an important market for coal producers in Appalachian States such as your State of Virginia and my State of West Virginia.

I should note that the eastern coal utility market is particularly important to my State. In 1983, that market consumed 17 million tons of West Virginia coal, representing 27 percent of the West Virginia coal consumed in the United States. To the extent that foreign coal imports displace West Virginia coal in that market, then West Virginia, where coal industry unemployment at the end of 1984 was about 33 percent, will suffer.

The major coal-producing nations are confronting a problem of excess production capacity which provides an economic incentive for these nations to expand their export markets. For example, a recent study by the Department of Commerce indicates that by 1990 the excess steam coal export capacity in Australia, Canada, Colombia, Poland, and South Africa alone could be 40 million tons per year.

While much of that excess export capacity will probably be directed toward European markets and Pacific Rim markets, some of this foreign coal will be imported into the United States.

There are only a few preliminary analyses of the potential impacts of coal imports. Thus, it is difficult to quantify the extent to which foreign coal imports will penetrate domestic coal markets. However, the Department of Commerce has recently completed a study of the market potential for steam coal imports into the United States.

The study concluded that by 1990 total steam coal imports into the United States could reach 17 to 18 million tons per year, with 30 or more utility plants importing foreign coal. While 18 million tons of coal would represent only about 2 percent of the total U.S. utility coal consumption in 1990, as estimated by the National Coal Association, displacement of 17.7 million tons of domestic coal production could have serious economic implications.

Based on mining productivity figures published by the Department of Energy, it is estimated that almost 18 million tons of imported coal could result in the loss of as many as 3,800 direct mining jobs and the potential loss of up to 8,000 jobs related to the coal industry. The direct income lost by these jobs could exceed $200 million per year. It is clear that the coal mining communities in West Virginia and other Appalachian coal-producing States would be injured by such economic losses.

In fact, the Commerce Department's estimate of import levels may be quite conservative and there are reasons to believe that the U.S. market potential for foreign coal imports may be significantly greater than the Commerce Department report would indicate.

For example, the Commerce study estimate assumes that 31 utility plants would import coal by 1990. However, the Department's analysis identified at least 79 utility plants with coal specifications which could be met by foreign coal, and where the delivered price of the foreign coal is at least 1 percent, or, rather, 1 cent per million Btu's lower than the average cost of domestic coal.

Another recent study, the results of which were presented in testimony before the House Subcommittee on Mining and Natural Resources, indicates that by 1990 about 37 million tons of utility coal demand not under supply contracts will exist at east and gulf coast utilities that are capable of burning imported goal. ×

Moreover, while most utilities have indicated that they would take up to one-third of their requirements from foreign sources, some have indicated off the record, I am told, a willingness to fill all their needs with imported coal, according to the Commerce Department study. Furthermore, the Commerce Department concludes that the potential for foreign coal imports will be much greater after 1990, when many long-term contracts initiated in the 1970's begin to expire.

Mr. Chairman, there has been a new development which may have a significant impact on the U.S. coal import situation in the future. In 1984, a new surface mine, known as El Cerrejon, began production in the South American nation of Colombia. The mine is one of the largest surface mining operations in the world, with estimated reserves of almost 2 billion tons and a productive capacity of 15 million tons per year of high quality, low sulfur steam coal.

The mine is a $3.2 billion joint venture between Exxon Corp. and the Colombian Government. The total productive capacity of the mine is dedicated to the export market. According to a recent report from the International Energy Agency, the Colombian Government is pursuing a goal of exporting 15 million tons of coal per year by the year 2000, more than 3 times the current 15 million tons per year capacity of the El Cerrejon project.

The Commerce Department study reports that Colombian coal has the potential to displace coal from West Virginia, Kentucky, and Colorado. While Colombia represents the most significant major competitor to Appalachian and other domestic coal producers, it is by no means the only one.

For example, coal from Canada has the potential to displace coal from West Virginia, Virginia, Kentucky, and Illinois. In addition, Appalachian coals currently being exported to Canadian utilities could be displaced by imported coals delivered by way of the St. Lawrence Seaway.

An important factor affecting the competitive position of the U.S. coal industry is the strength of the dollar against other currencies, which makes foreign coal less expensive on the U.S. market relative to domestically-produced coal. In addition, the difference between domestic production costs and foreign production costs has an effect on the competitive position of U.S. coal in the world market.

One reason for this may be that the regulatory environments governing foreign coal producers are less stringent than the regulatory environment in which domestic producers must operate. As Interior Secretary Donald Hodel has pointed out, some foreign coal is very low-cost coal produced under rules and restraints that are not comparable to ours from an environmental standpoint.

Consequently, in terms of price, foreign coal producers enjoy a competitive advantage over U.S. producers in domestic and foreign markets. For example, it is reported that in 1983 a Florida utility was quoted a price for Colombian coal of $2 per million Btu's, including transportation costs. The Commerce Department study suggests that the cost of Colombian coal is closer to $1.50 per million Btu's. In contrast, coal from a domestic producer to the same Florida utility was $2.50 per million Btu's.

Testimony recently presented before a House subcommittee estimated that along the Atlantic coast foreign coals average 87 percent of the U.S. price and along the gulf coast foreign coals average 77 percent of the U.S. price. At such prices, foreign coal may displace significant quantities of domestic coal in certain domestic markets.

It is difficult at this time to determine the extent to which foreign coal imports represent a serious problem. We simply do not have enough information. The economic implications of foreign coal, particularly from Colombia, are not fully understood.

Because of the effect that this issue may have on important coal-producing regions of the United States, such as Appalachia, and on the economies of States such as my own and that which is represented by the distinguished Senator from West Virginia, Mr. Rockefeller, on this committee, it is essential that we carefully assess the situation, that we determine the extent to which regional coal markets will be affected, and that we identify alternative policies for addressing any adverse economic impacts.

And to this end, Mr. Chairman, I will be introducing legislation directing the Department of Energy to issue a new quarterly report devoted exclusively to U.S. coal imports. This report will include data on quantity, quality, and price of all imported coal. In addition, it will include statistics on country of origin, U.S. consumers of the foreign coal, domestic suppliers to these same consumers, and domestic coal displaced by the imported coal.

Some of this information is already reported by the Energy Department, but it is not organized in a single document and consolidating this information in one quarterly report will permit the Congress to monitor the trends in U.S. coal imports. This legislation would require that the first quarterly coal import report be issued in October of this year.

This legislation will be referred to this committee, and I would invite the attention of the committee to the provisions of the report and it might be possible for this committee to require some of the information at least from the Department without legislation.

But the legislation instructs the Energy Department to issue a report which focuses on the future. The Department of Energy will be directed to conduct a detailed analysis of potential U.S. markets for coal imports by producing nation between now and the year 2000. This analysis will identify employment impacts in the domestic coal industry.

The analysis will include important factors not considered in the Commerce report, such as the potential coal import markets represented by new coal-fired plants currently under construction, plants planning to convert to coal, and new plants projected between now and the year 2000.

The report would also identify policies of other coal-producing or importing industrial nations—for example, Colombia, South Africa, Canada, Japan, Poland, Australia—governing coal export and/or imports. The market analysis report will be completed and submitted to Congress by January 1986.

The reports required by this legislation will provide a basis for monitoring the coal import situation and developing policies and strategies to protect our Nation's best interests. In other words, the legislation would provide for reports that would supply the kind of information that your committee will be attempting to secure, I should think, in the course of these hearings.

I thank you for your leadership in this area, Mr. Chairman. You've been very actively involved in connection with other subject matters which have a direct and often adverse impact on the production and on the use of coal, and I thank you for your leadership, not only in this area but in other areas as well.

I am confident that this hearing will produce an initial information base which will be useful for a careful assessment of the economic implications and impacts of coal imports, and I look forward to reading what industry leaders and other witnesses will have to say on this important issue today.

I would like, with your permission, to also introduce into the record a copy of the bill which I will be introducing today.

Senator WARNER. Without objection.

[The text of the bill introduced by Senator Byrd follows:]

99TH CONGRESS
1ST SESSION

S. 1248

To establish a national coal imports reporting program to provide an information base to permit the Congress to monitor trends in United States coal imports and develop national policy to protect the interests of the United States.

IN THE SENATE OF THE UNITED STATES

JUNE 6 (legislative day, JUNE 3), 1985

Mr. BYRD (for himself, Mr. SIMON, Mr. FORD, Mr. WARNER, and Mr. ROCKEFELLER) introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To establish a national coal imports reporting program to provide an information base to permit the Congress to monitor trends in United States coal imports and develop national policy to protect the interests of the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "National Coal Imports Reporting Act of 1985".

QUARTERLY UNITED STATES COAL IMPORTS REVIEW

SEC. 2. (a) The Secretary of Energy shall report to Congress on a quarterly basis on the status of United States coal imports.

(b) Each report required by this section shall—

(1) include quarterly, year-to-date, and previous year data on the quantity, quality (including heating value, sulfur content, and ash content), and delivered price of all coals imported into the United States;

(2) identify the foreign nations exporting the coal, the United States consumers receiving coal from each exporting nation, domestically-produced coal supplied to United States consumers of imported coal, and domestic coal production, by State, displaced by the imported coal;

(3) identify transportation modes and costs for delivery of imported coal;

(4) delineate mining costs of foreign-produced coals and mining costs of comparable quality domestically-produced coals; and

(5) specifically high-light and analyze any significant trends or unusual variations in coal imports.

(c) The first report required by this section shall be submitted to Congress in October, 1985. Subsequent reports shall be submitted within 30 days after the end of each quarter year. The report submitted at the end of the fourth quarter of the calendar year shall contain a summary of information for the calendar year.

ANALYSIS OF THE UNITED STATES COAL IMPORT MARKET

SEC. 3. (a) The Secretary of Energy shall conduct a comprehensive analysis of the coal import market in the United States and report the findings of such analysis to the Congress within six months of the date of enactment of this Act.

(b) The report required by this section shall—

(1) contain a detailed analysis of potential United States markets for foreign coals, by producing nation, between 1985 and 2000;

(2) identify potential domestic consumers of imported coal and evaluate the magnitude of any potential economic disruptions for each impacted State, including analysis of direct and indirect employment impact in the domestic coal industry and resulting income loss to each State;

(3) identify domestically produced coal that potentially could be replaced by imported coal;

(4) identify contractual commitments of United States utilities expiring between 1985 and 2000, spot buying practices of United States utilities, fuel cost patterns, plant modification costs required to burn foreign coals, proximity of navigable waters to utilities, demand for compliance coal, availability of less expen-

sive purchased power from Canada, and State and local considerations;

(5) evaluate increased coal consumption at existing utility plants between 1985 and 2000 resulting from increased power sales;

(6) provide analysis of the potential coal import market represented by new coal-fired plants currently under construction, new coal-fired plants projected up to the year 2000, plants planning to convert to coal, and plants planning to convert to coal, and plants that potentially could convert to coal;

(7) identify existing authorities available to the Federal government relating to coal imports, assess the potential impact of exercising each of these authorities, and describe Administration plans and strategies to address coal imports;

(8) identify and characterize the coal export policies of all major coal producing nations, including the United States, Australia, Canada, Colombia, Poland, and South Africa with specific consideration of such policies as—

(A) direct or indirect government subsidies to coal exporters;

(B) health, safety, and environmental regulations imposed on each coal producer; and

(C) trade policies relating to coal exports;

(9) evaluate the excess capacity of foreign producers, potential development of new export-oriented coal mines in foreign nations, operating costs of foreign coal mines, capacity of ocean vessels to transport foreign coal, and constraints on importing coal into the United States because of port and harbor availability;

(10) identify specifically the participation of all United States corporations involved in mining and exporting coal from foreign nations; and

(11) identify the policies governing coal imports of all coal-importing industrialized nations, including the United States, Japan, and the European nations by considering such factors as import duties or tariffs, import quotas, and other governmental restrictions or trade policies impacting coal imports.

Senator WARNER. Mr. Leader, I thank you for being leadoff witness this morning at this important hearing and, as usual, you prepare things in a very thorough and precise manner. Your perspective on the history of this situation, bringing us up to this point, is a valuable contribution to the record.

The report that you mentioned, the Chair will seek from the Department of Energy witness perhaps a representation that this report can be forthcoming without specific legislation in order to expedite it.

Mr. Leader, at this time, as a courtesy to your colleague, I think we'll just yield to him for a few moments for a statement and perhaps a question or two, in view of the Leader's need to return to the floor to open the Senate.

Senator ROCKEFELLER. Mr. Chairman, I don't have any questions for the honorable witness, but I would point out that the minority leader, as always, is right on target, and I think it's highly symbolic and very important to the subcommittee and to the Congress as a whole in this relatively new area of inquiry that Senator Robert C. Byrd from the State of West Virginia has led off the morning's business.

Congressman Rahall in the House opened a hearing not too long ago saying that it was his impression that it was the first time there'd been a hearing on the subject of coal imports at that time. It is an area where the amounts of imports at the present time are not very great, but the potential for substantial increases in the future are frightening indeed.

And I certainly am honored not only to be your junior colleague but to be able to hear your expert testimony, and I do thank you, sir.

Senator BYRD. Mr. Chairman, I thank my distinguished colleague.

Senator WARNER. Senator Murkowski.

STATEMENT OF HON. FRANK H. MURKOWSKI, A U.S. SENATOR FROM THE STATE OF ALASKA

Senator MURKOWSKI. Thank you very much, Senator Warner.

I also would like to join in commending you for highlighting the realities associated with declining world markets for domestic coal. You've cited a number of areas on the east coast, and certainly in Wyoming and other coal-producing areas, and we in Alaska have some of the largest coal deposits of Tidewater known in the world.

The realities of the marketing of coal in the Pacific Rim are up against the significant economics of competing with Australia and South Africa. I think it's a bit ironic to reflect on some of the commitments that have been made with regard to purchases of coal from the United States, particularly commitments by Japan that they would increase coal purchases, when in reality they have purchased more each year from Canada and less from the United States.

And, Mr. Leader, I think it simply points out the realities that we are losing shares of conventional resource markets throughout the world, not just in coal and in other energy forms. We've seen our copper industry virtually eliminated as a basic industry domestically.

Control, I think, efforts such as yours, Senator Warner, can go a long way to identify what has to be done to retain and rebuild those markets, and I commend you and you, Mr. Leader, for initiating this.

Senator **Warner**. I thank the Senator from Alaska, and that's precisely why this Senator and others on this committee, and yourself, Mr. Leader, want to get started right away on this issue, because we have seen the copper industry disappear vitually disappear.

And tomorrow, subject to the business of the Senate, I will be in my section of the State which is coal country, Appalachia, addressing a high school class with youngsters who want to go and work in the mines, but there's no work to be performed in the mines. It's as simple as that, and I am struggling with the message that I'm going to deliver tomorrow.

But it's just a puzzling thing we're sitting on—a 300-year supply in this country, able-bodied men and women now able to go in and mine it, and yet we'll import coal from other areas of the world. And this mine in Colombia, which I understand has fairly shallow coal deposits and little if any comproble environmental controls or other requirements as we have in this county is likely to become a very threatening kind of thing.

So I thank you, Mr. Leader.

Senator **Byrd**. I thank you, Mr. Chairman. I thank Mr. Murkowski for his statements and his interest and I commend you again, Mr. Chairman and members of the committee, for proceeding with this hearing. I thank you for your courtesy.

Senator **Warner**. I thank you.

The Chair will now recognize the Senator from West Virginia for purposes of an opening statement.

STATEMENT OF HON. JOHN D. ROCKEFELLER IV, A U.S. SENATOR FROM THE STATE OF WEST VIRGINIA

Senator **Rockefeller**. Mr. Chairman, I appreciate that and I want specifically to compliment you as chairman for calling these hearings to examine this matter of great importance. I only hope that this will be just the beginning of an effort by this subcommittee and by the Energy Committee as a whole to crack down on the problem of coal imports before they become the straw that in fact breaks the back of the U.S. coal industry.

I would say to the Chairman, however, that I find it absolutely appalling that this country is undercutting our domestic coal industry by importing coal from abroad. Tens of thousands of our miners are out of work in West Virginia and elsewhere. Hundreds of our mines lie idle, and yet this country is purchasing foreign coal. With fully one-quarter of the world's recoverable coal reserves within our borders, that being about a 400-year reserve, I find it hard to fathom how we can stand by and watch our markets erode because of our failure to promote and protect American coal.

As my senior colleague, Senator Byrd, just finished saying, can you imagine, can you imagine how astonished the world would be if we were to turn to them and tell them that Saudi Arabia was beginning to import crude oil. Well, quite frankly, that's precisely the reaction that the American people should have to the news that this country is importing sizeable amounts of foreign coal, and all indications are that those shipments will get larger and larger in the years to come.

Mr. Chairman, as you well know, from my perspective as Governor of West Virginia for the past 8 years and now as West Virginia's junior Senator, I have watched the coal industry go from a healthy one to the razor's edge, and having watched the incredible hardship a depressed economy places on solid, hardworking West Virginians I view with considerable alarm the targeting of American markets by a mine such as the one being developed in Colombia.

We simply cannot allow to happen in the coal industry over the next decade or two what has happened in so many of our other basic industries today; that is, a struggle to survive because of being besieged by imports. I think we need to consider, Mr. Chairman, legislatively, ways to nip this problem in the bud and at the same time work on the coal industry's competitiveness, and that is a constant problem.

I think we need to reform rail transportation policies that work against domestic coal producers in both domestic and export markets. I think we need to work more aggressively to develop larger export markets and make the necessary port and waterway improvements that will allow for greater exports.

I also think we must examine very closely the U.S.-backed lending agencies to see whether one policy to promote exports ultimately works to undercut the employment of another group of workers, in this case coal miners. Finally, I think we must examine our trade and tariff laws and make adjustments that will be to the benefit of our coal industry in both the short and the long term.

In sum, Mr. Chairman, I think we have a full plate to deal with on the coal import question, and while the experts here today may possibly try to fog the issue with assertions that imports do not present an immediate problem, I think it is none too soon that we begin to take action now. I look forward to the statements and the presentations we are about to receive, Mr. Chairman, and again I thank you not only for your courtesy in letting me speak at this time, but also for your leadership on this whole matter.

And with respect to your visit to southwestern Virginia tomorrow, I know very well that as the years have gone by and there have been many Senators from the State of Virginia, there has been few, if any, who have visited the coal fields of Virginia as frequently as you have.

Senator **Warner**. Y appreciate the comments from our new member of this committee. You're going to make a valuable contribution in the years to come. We have an important heritage, our two States, in trying to make certain that they continue in the forefront of the energy area of coal.

Before calling on the next panel, I wish to advise all in attendance that the concept of this hearing really originated a year ago as I began to study the potential impact of this new mine in Colombia. The scheduling of this hearing coincides with the preparation by the Department of Energy of an interim report entitled "Effects of Rail Regulatory Reform on Coal and Electricity". And that the scheduling of this hearing and the publication, of this report is purely coincidental.

Our second witness today, the Assistant Secretary of Energy for Environmental Health and Safety, will outline the preliminary staff findings in this report, and I wish to quote from the cover page of the report.

> This is a draft interim report prepared by the DOE staff. The views presented in this report represent staff Imvel perspective only—nothing in this paper should be constrwed as the views of the Department of Energy or the Secretary.

Out of courtesy to the Department of Energy, having at one time myself hmaded a very large department in the Government and had the responsibility of the preparation of many reports and knowing the evolution from the interim report to the final report and farming it out for comments and so forth, I talked to the Under Secretary last night and assured him that it was not the intention of this hearing to, other than having a preliminary perspective of what those views are, we're not here to either applaud or reject the report, but simply to put the preliminary findings in this record.

Also, I am writing the chairman of the Commerce Committee, which has jurisdiction over the Staggers Act, requesting that he hold an oversight hearing on the final DOE report and other factors which I think bear on the issue of rail transportation of coal.

Depending upon the response of the Commerce Committee, it may also be appropriate for the Energy Committee to devote an entire hearing to the report at such time as the report becomes final.

I welcome all of the distinguished witnesses appearing before the subcommittee today, and look forward to their testimony. The record for this hearing will remain open for a period of 2 weeks so that other written statements may be submitted, evaluated, and to permit those testifying today to respond to written questions that may be submitted.

We'll now hear from our first panel. That will be the Honorable William A. Vaughan, Assistant Secretary of Energy, and the Honorable E. Allan Wendt, Deputy Assistant Secretary for International Energy and Resources Policy, Department of State.

At this time the Chair also places in the record at a point where other opening statements will be printed the statement of the Honorable Malcolm Wallop, U.S. Senator from Wyoming.

Now, Mr. Vaughan, if you will kindly give us a summary of your testimony, your entire statement will be put in the record.

STATEMENT OF HON. WILLIAM A. VAUGHAN, ASSISTANT SECRETARY FOR ENVIRONMENT, SAFETY, AND HEALTH, DEPARTMENT OF ENERGY

Mr. **VAUGHAN**. Good morning, Mr. Chairman.

Senator **WARNER**. Before we get under way, I think out of deference to our first witness, the minority leader, he has indicated that he intends to introduce legislation requiring the DOE to report quarterly on factors regarding prospective impacts of coal imports to this committee.

Do you believe that your Department has the capacity to produce such a report and can the Department provide this type of report in the absence of legislation? At some point in your testimony would you respond to the minority leader's inquiry?

Mr. VAUGHAN. Yes, Mr. Chairman.

Mr. Chairman and members of the committee, I appreciate the opportunity to speak with you this morning about the impacts of partial rail deregulation. I note that you are incorporating my full statement in the record, and so I will attempt very briefly to outline what I believe to be the salient points and then be available for questions at the conclusion of that. I will try to respond to your question, Mr. Chairman.

I think your opening remarks just a few moments ago, Mr. Chairman, set the stage for this report on which I am testifying. It is important to note that this study of coal transportation is, at this stage, a technical staff document only and, more importantly, that it addresses only one of a broad range of issues that can affect coal use.

As you and the Senator from West Virginia who testified a few moments ago have already indicated, there are a range of other issues—environmental, mine and safety, import and export policies, cost of alternative fuels, general economic growth and many other factors—that together really determine the future of coal in the United States.

I think perhaps it's important to go back to the status of rhetoric in those who were interested in the issue of energy and specifically coal of approximately a year ago. There was considerable rhetoric at that time to the effect that partial rail deregulation, pursuant to the Staggers Act, was unwarrantedly impacting the price of coal, and very specifically that it was unwarrantedly affecting the price of coal to the Nation's electric utilities.

In response to that level of rhetoric and with the cooperation and considerable interest of the coal industry itself, electric utilities as well as railroads, the Department undertook an attempt to independently inquire into the impacts on the use of coal of partial rail deregulation as prescribed under the Staggers Act, and very specifically to try to determine whether or not excessive amounts have been transferred to the price of coal pursuant to that act.

Initially, the Department looked at a great wealth of information that I referred to earlier that was involved with the rhetoric, and there were considerable exchanges of information furnished by the railroads, by the coal industry, and by the electric utilities.

Following that exchange of information, when it became in our judgment, because of the conflicting and inconclusive nature of that information, we were directed by the then-Secretary of Energy Donald Hodel, to undertake an independent study. It is that study, in its first phase, that I am talking about this morning.

Now, approximately, two-thirds of the coal produced in the United States travels at some point in its life on rail, and rail costs admittedly can amount to more than half of the delivered price of coal. Coal unquestionably in this country, in its production, is dependent upon the rail system. But, in like fashion, the railroad industry is dependent upon the coal industry. Coal is the largest single commodity, volume commodity, hauled by railroads, and therefore a major source for a number of rail systems in this country.

Now, the study I referred to we broke into two phases. The first phase, and that is the phase that is in draft form and issued out for interagency comment and general comment from the public at large at this time, that first phrase addressed electric utility use of coal. The second phase, which is underway at this time and will be available in draft form approximately the end of the year, addresses the subject of exporters and producers of coal.

First, and I think it's important at this point to also point out, Mr. Chairman, that the conducting of studies and the process by which they could go through a draft stage and on to final documents is but a portion of the policymaking process of any department, as you, sir, well know from your experience, having run a major department of our government.

So, it is important for the committee to note, in my judgment, that this draft report is not policy at this stage. It is only an input to the policymaking process.

What we tried to do——

Senator **Warner**. I'm going to interrupt at that point, only to say that we've got to handle the information that you're going to deliver with great care, because there could be a change at some point in time, anf I would not want the testimony today to adversely impact the very large number of individual organizations which are highly interested in the rail cost of transportation of coal.

So, having said that I think we have carefully laid the foundation for the treatment of information from your testimony.

Mr. **Vaughan**. What we did, Mr. Chairman, is we took a worst case approach in dealing with the utility factor and use of coal. Specifically, we studied so-called captive shipper electric utilities utilizing coal. Specifically, we determined to look at the worst case and see what the worst case produces, and it is in that sense that the information is offered.

Simply put, the study finds or is unable to find a single instance in which rail costs for utilities have or are likely, in our judgment, to adversely affect the production and consumption of coal by utilities, or to excessively raise rates by utilities.

We did not find instances, were unable to find and diligently looked for instances and illustrations of situations where post the Staggers Act rail costs for shipping coal to utilities had produced excess profits by railroads or excess revenue.

In short, we found no instances in which we believe the Department of Energy should have found major concern in this area caused by rail rates pursuant to the Staggers Act.

In addition, we did find that the essential purposes espoused by the Staggers Act, by the Congress in enacting the Staggers Act, appear to be effectively and efficiently being accomplished, namely repair of the deplorable state in which many of our railroads had declined in the years prior to passage of the Staggers Act.

Finally, we looked at the potential for excess cost, excessive cost-loading into electric utilities or onto electric utilities by rails in the situations of so-called captive shippers. And while we found theoretical potential, we also found, in our judgment, that there are adequate laws, rules, and regulations and authority in the ICC to deal effectively with those situations should they occur in the future.

In short, Mr. Chairman, we found no grounds to revisit, reopen the Staggers Act. From what we can see in this report, at least from the perspective of rail costs as transmitted to coal-burning electric utilities, there is, we found, no grounds for reopening the Staggers Act.

That concludes my summary, Mr. Chairman. I would like now to try to answer the question you posed from Senator Byrd's testimony. Specifically, is the Department able, in the absense of legislation to provide the reports that the Senator referred to in his testimony.

The short answer to that question, Mr. Chairman, is that I specifically do not know. I believe much of the information the Department is able to furnish. I did note, however, that the Senator did refer in his testimony to identifying markets and producers displaced, and certainly sitting and listening to that I wondered how an agency such as the Department might acquire such information. I do think that would be very difficult.

There may be other problems. I think the Department should and will review the Senator's legislation and obviously adopt a position on it.

[The prepared statement of Mr. Vaughan follows:]

STATEMENT

OF

WILLIAM A. VAUGHAN
ASSISTANT SECRETARY FOR
ENVIRONMENT, SAFETY AND HEALTH
U.S. DEPARTMENT OF ENERGY

BEFORE THE

SUBCOMMITTEE ON NATURAL RESOURCES DEVELOPMENT AND PRODUCTION
OF THE
COMMITTEE ON ENERGY AND NATURAL RESOURCES
U.S. SENATE

June 6, 1985

Good morning Mr. Chairman and members of the Committee. I appreciate the opportunity to speak with you about the energy impacts of partial rail deregulation.

This study of coal transportation is a technical staff report and it addresses only one of a broad range of issues that could possibly affect coal use. We must remember that many other factors - including regulations to protect the environment and workers, import and export policies, the cost of alternate fuels, and general economic growth - will together determine the future of coal in the U.S.

Last year, representatives of the coal industry, electric utilities, and railroads all requested that the Department of Energy review whether partial rail deregulation was inhibiting the use of coal in the U.S. or causing those dependent on coal to pay "excessive" amounts to have their coal delivered.

Initially, the Department's Office of Policy, Planning and Analysis reviewed all information provided, but found much of the data conflicting and inconclusive. The coal and utility industries charged that rail rates for coal were unfair and were being used to cross-subsidize other traffic. The railroads countered that competition provides effective limits on rail rate increases for coal.

From the information then provided us, it appeared that partial rail deregulation could potentially disrupt the progress the nation has made in diversifying our sources of energy and relying more heavily on coal. Coal provides almost one-quarter of the energy consumed in the U.S. -- up from about a sixth of the market in 1974 -- and the potential exists for future growth. In 1984, coal was the energy source for more than 55 percent of the electricity produced in the U.S. and we expect this percentage to increase.

Moreover, coal and railroads appeared inescapably intertwined. Over two-thirds of the coal produced in the U.S. travels at least partly by rail and rail costs can comprise more than half the total delivered price of coal. Because it is a bulk commodity, which is typically produced in remote regions and hauled relatively long distances, coal is dependent on the rail system, and therefore more likely to be captive to it. At the same time, coal is the largest volume commodity hauled by railroads and therefore a major source of revenue for the rail system.

Given the uncertainties raised by the conflicting industry data and the importance of transportation to the entire coal industry (producers, marketers, transporters, and end-users), the Office of Policy, Planning and Analysis initiated an independent study to assist the Department in determining whether partial rail deregulation does (or could) reduce coal use in the U.S or burden coal users, producers, and exporters with unfair prices. In the first phase, the office focused on the problems of electric utilities, which account for more than 80% of the coal consumed in the U.S. In a second phase, to be completed by the end of the year, they will examine the effects on coal producers and exporters.

Let me emphasize that the study they undertook is only one component in the Department's policy decision process -- it is not in itself a policy decision. This study and other analyses will be carefully reviewed by the Department and the Administration before determining what, if any, Departmental position is appropriate.

The staff analysis concentrated on the problems of coal-fired utilities which are "captive" shippers, that is those utilities which are unable to obtain effective competition for their coal transportation and who thus are in a weaker negotiating position in regard to rail charges. Our current findings apply only to captive utilities. No final conclusions can be made about captive coal producers or exporters until the completion of the second phase of the study. It was sensed - and the study now bears this out - that the presence of actual and potential competition on transportation markets is normally effective in containing rail rates.

Although most coal is used in markets where there is competition, substantial amounts of coal are "captive". It is impossible to firmly establish how much coal is captive, because "captive" and "competitive" are relative rather than absolute, terms. A rough estimate, based on the simple test of whether a powerplant is using more than one delivery option, indicates that about 40 percent of the coal used by electric utilities in the U.S. is delivered only by rail, and may be captive.

This estimate is by no means a perfect measure of captivity. It does not consider potential competition. For example, a plant located on water which has no dock would be considered "captive" by this definition. Further, the ability to shift load among plants or purchase electricity may reduce captivity. On the other hand, dependence on a single coal source, because of coal contracts or quality considerations, would increase the number considered captive if that source is only served by one railroad. Given the importance of site specific factors in defining "captivity", the office chose to examine individual cases to gain a clearer understanding of the possible problems and benefits associated with partial deregulation.

With the assistance and guidance of the utility industry, the Office of Policy, Planning and Analysis selected for interview nine utilities that perceived themselves to be "captive" and the carriers that served them. Basically, these interviews yielded three interrelated areas of disagreement. The first issue was whether ICC regulation was protecting "captive" shippers from unreasonable rates, as required by the Staggers Act. The second was whether railroads were earning excessive profits. And the third was whether the Staggers Act needed to be amended to remedy the problems identified by those shippers who perceived that they were "captive". To evaluate these issues, the study relied on the legislative history, as well as ICC data on the financial and operational performance of the rail industry and evidence presented in ICC proceedings.

The evidence assembled in the first phase of the draft study is complex, but it has helped to sort through the perplexing questions brought to the Department's attention this past year.

First of all, it does not appear that partial rail deregulation is seriously threatening the future utility use of coal in the U.S. Most coal is transported in markets that are effectively competitive. We have not yet found any evidence that railroads have raised coal rates to unreasonable levels. When new power plants are sited, utilities have the opportunity to select sites that provide alternative transportation options or contract for the lowest rail rate. Moreover, coal transportation costs contribute a relatively small amount to the total price of electricity in the U.S. As a result, a rise in rail rates, which is more likely to occur in less competitive markets, is not expected to significantly reduce electricity demand or coal consumption.

Secondly, it appears that the primary goals of the Congress--an operationally and financially healthy rail system -- are being achieved. Railroad profitability has improved, but rates of return for railroads as a whole are still below those of many other industries. Even the more profitable railroads do not appear to be earning returns that would be considered excessive in other industries. A number of potential concerns with the regulatory accounting methodology and the methods used to measure profitability were found, but their magnitude does not appear to negate the draft report findings that the railroads are not excessively profitable.

Moreover, shippers and carriers agree that the backlog of maintenance that once inhibited rail operations has been erased. Their personal assessments are reinforced by gains in productivity measures based on utilization of employment, miles of railroad, and equipment.

While it cannot be conclusively stated that all of the improvements in the national rail system evidenced in DOE's study are solely attributable to the Staggers Act, it does appear that its emphasis on relying on the market and standard business practices to establish rail rates has created an environment where railroads can become more efficient. But what about shippers? Are they bearing an excessive burden for the health of the rail system?

As should be expected in a market that is effectively competitive in the majority of cases, rail rates for coal as a whole have not increased significantly. National average statistics, adjusted for inflation, indicate that rail rates for coal have increased less than one percent per year since 1980, the year the Staggers Act became effective. Where there is competition to the existing rail service, many shippers have been able to negotiate lower rates. Instrumental to this increased level of bargaining has been the use of contracts, the legality of which are recognized, for the first time, in the Staggers Rail Act.

National data can mask regional or local problem cases, so we investigated further. I cannot definitively tell you how much rates have changed for individual shippers because rates established by contracts are confidential, by mutual agreement of the parties. I can say, however, that the study examined over 25 "captive" cases identified by the electric utility industry and found only a few instances where published rates have increased as much as the 4-6 percent real annual increases allowed by the Staggers Act.

But, what about the future? Based on some of the case studies, it is conceivable that a "very captive" plant could see its rail rates increase substantially under the current regulations. Some shippers have limited options at current transportation rates and could be subject to substantially higher rates if market conditions change. Moreover, the extent of captivity may increase in some instances as the economy continues to grow. In the years since passage of the Staggers Act, overcapacity in the coal and electric utility industries has allowed some utilities to shift away from "captive" plants and mines. This flexibility has provided some leverage for limiting the monopoly power that the railroads might otherwise be able to exercise over coal transportation, but such flexibility may well diminish in the future if electricity supply and coal production conditions tighten.

To understand why captive shippers are fearful of rate increases, it is important to recognize the fundamental change in the regulatory environment and philosophy that accompanied the Staggers Act. The Staggers Act abandoned proportional cost based regulation. As a result, shippers cannot look to the ICC to restrict individual coal rates on the basis of cost as they did before the Staggers Act.

The Congress and the ICC, supported by economic theory, have recognized that differential pricing is the most effective means for enhancing the efficiency and financial performance of the rail industry as a whole. Under differential pricing, competition and the demand for services are used to establish rates. Because those shippers most dependent on rail transportation are expected to pay the highest rates, differential pricing creates the potential that rates could be much higher in "captive" markets.

Congress recognized this potential and specifically directed in the Staggers Rail Act that a regulatory backstop be provided to protect "captive" shippers from unreasonable rate increases. This regulatory protection is important to "captive" coal shippers because these shippers did not choose to be captive in a competitive environment; rather their situations are the results of fuel choice and siting decisions made long ago in a different planning environment.

Under such circumstances, the shippers' ability to constrain the monopoly power that the railroads could exercise over them is limited because generating competition for coal transportation, when it does not already exist, can be very expensive and is often restricted by environmental or other restrictions. This can be a factor even in the relatively common occurrence when only a portion of the movement can be handled by only one railroad and the shipper has a number of options for the remainder of the move. New rail lines are always costly and often difficult to site. Coal slurry pipelines, another potential competitor, also may have great difficulties being built, especially without long-term demand contracts and given current uncertainties regarding right-of-way access.

The draft study suggests that the evolving regulatory process does not yet fulfill the Staggers Act requirement to protect individual "captive" shippers against unreasonable rates. The problem is not the Staggers Rail Act, the basic reliance on differential pricing, or even the conceptual framework underlying the ICC's approach. Rather, it stems from unclear and sometimes technically inconsistent definitions in the regulations developed to implement the Act.

These problems can be remedied by carefully reviewing and revising regulations that have yet to be finalized. The ICC has a difficult task, but it and its respective constituencies have now amassed sufficient experience with partial deregulation to commit to a fairer and more predictable regulatory process.

Finally, from what has been seen in the case studies, enhancing competition is the most effective means of assuring reasonable rail rates. Enhancing competition in the rail transportation industry is certainly not an easy task, but it is one where selective government involvement could allow the market to establish more competitive rates.

The ICC might incorporate pro-competitive actions in the regulatory process. One key area would be to deal with the common situation where a utility is "captive" because a short segment of the move is not competitive. A possible approach could focus regulatory oversight on the portion that is not competitive, rather than the entire move. The ICC is currently considering pro-competitive regulatory measures. For example, in the Intramodal-Competition proceeding exparte number 445, the ICC is gathering comments on the use of its authority over reciprocal switching and trackage rights to enhance competition. Our study suggests that in some cases such steps may offer a potential alternative for shippers.

In summary, the draft study by the Office of Policy, Planning and Analysis concludes that the Staggers Rail Act has prescribed a sound approach to remedying the operational and financial problems that were crippling the rail system during the 1970's. Moreover, the electric utilities' increasing reliance on coal is not likely to be affected by this approach. Regulatory fine tuning to remedy potential abuses is needed and is underway. Based upon the results of the first phase of the study, at this time, we see no reason to amend the Staggers Act. I will be glad to answer your questions.

Senator WARNER. Mr. Secretary, I would first ask my colleagues if they would be willing to confine their questions to a 5-minute period. We have an extensive list of witnesses and the permission at this point in time to continue this hearing, I have determined, stops at 12:30. So I'll just be very brief.

Mr. Secretary, during the development of your report, did you seek input from the coal industry, electric utility industry, and rail industry?

Mr. VAUGHAN. Yes; we did, and that input is now currently sought by the Department. Even more so, Mr. Chairman, the Secretary of the Interior, when addressing the American Mining Congress in its convention in Pittsburgh recently, specifically issued a call, which the Department endorses, that information on this subject be directed to the Department. We have participated and continue to participate in a number of public events eliciting comment on this draft report.

Senator WARNER. Mr. Secretary, in your testimony we were awaiting some views on the Colombian mine. To what extent has the Department of Energy examined that mine and its potential as a future exporter of coal to this country?

Mr. VAUGHAN. The Department, Mr. Chairman, has inquired, to my knowledge, into the Colombian mine situation in the following respect. The Department did participate in and partially co-fund the Department of Commerce study referenced earlier in this hearing. While the Department had some specific concerns about that report, it was a participant in that report and the report did look at, among other things, the Colombian mine situation.

Second, last fall I had the occasion to specifically inquire into that situation as the Assistant Secretary for Fossil Energy in response to a letter addressed, I believe, if I recall correctly, to the Vice President. The long and short of that situation is, as I think was brought out in Senator Byrd's testimony, the costs of producing coal from that mine are quite low.

As far as rail cost, and that was the specific question that I was examining at the time last fall, was a charge that the reason the utility involved had acquired that coal was excessive rail rates. The rail rates at those levels of sale of coal, delivered, are essentially irrelevant. If U.S. internal rail costs were free, it seems to me, we would have difficulty competing with the cost, as given in Senator Byrd's testimony, and that's vaguely the level of cost that I recall.

Senator **Warner**. My time is up. I turn to my colleagues.

Senator **Johnston**. Thank you, Mr. Chairman.

Mr. Vaughan, you're a good man. You're a smart man, and you want to do the right thing, and so I cannot understand why you and this Department can come up with the conclusion that there is no captive shipper under the Staggers Rail Act.

The Secretary of Energy has said that we have as much coal as Saudi Arabia has oil, yet we're importing coal. Can you imagine why we're importing coal?

Mr. **Vaughan**. I think we're importing coal, Senator, because somebody has offered the coal at a delivered price less than some U.S. competitor.

Senator **Johnston**. That's exactly right, Mr. Vaughan. But did you ever think of why foreign coal can be offered at a cheaper price in the United States than our own domestic coal? Did it occur to you that it might be because of these coal rates?

I would like to refer to a diagram prepared by CRE, the Coalition for Rail Equity. This diagram shows two recent examples of imported Canadian coal being cheaper than domestic coal. In both cases, coal was mined in Western Canada and then shipped by rail to Vancouver's British Columbia. It was then transported by ship, through the Panama Canal. In one instance, the coal continued on to Fall River, Massachusetts in total almost a 9,000 mile voyage. It was cheaper to bring this coal all the way from Canada than to haul it by rail from Appalachian. In the second example, the coal was brought through the Panama Canal to a utility in Texas which found it to be cheaper than they could get from Colorado.

Could that be correct?

Mr. **Vaughan**. I have heard a presentation, Senator, about the shipment from the mine in Western Canada around and to New England. As to what its specific costs were, while I heard them—I don't recall them—they were quite favorable. I believe a witness later in this hearing has specific information on that subject.

Senator **Johnston**. I understand that part of the Department of Energy's study had to do with Pennsylvania Power & Light, a utility with three captive plants. On a weighted average basis the operating cost to the railroad incurred in providing the service to the three captive PP&L plants was $2.44 per ton, which generates an operating profit of $6.02 per ton. The current weighted average coal rate results in a pretax return on railroad assets (used in providing rail service to PP&L) of 148 percent. In contrast, the pre-tax return to the ConRail system is estimated to be 10 percent.

When your study concludes that there is no rail rate abuse did you consider the 148-percent profit recieved by the railroad is providing service to PP&L? Does this appear to be a reasonable profit?

Mr. **Vaughan**. Mr. Chairman, I'm not familiar with those specific figures. I'll be glad to take that specific set of figures, run it back through the data we have, and respond to you for the record.

[The information follows:]

Return on assets is not typically used in ICC proceedings. According to conventional accounting methods, return on assets can be measured by one of the following methods:

(1) Earning power $\frac{\text{Sales}}{\text{Total Assets}}$

(2) Gross earning power $\frac{\text{Gross Profit}}{\text{Total Assets}}$

(3) Net earning power $\frac{\text{Net Income}}{\text{Total Assets}}$

PPA is unable to conclusively determine whether the data provided can be used in any of the above calculations. Based on the data we have on hand, it appears that the numbers provided attempt to estimate the second ratio using the following data:

- Total revenue is assumed to be the rail rate
- Operating cost is assumed to be the variable cost of the move.

(We are unable to identify the basis for measuring assets used in railroad service.)

In other words the estimate may be based on a calculation that is similar to the following:

$$\frac{\text{Rail rate} - \text{Variable Cost}}{\text{Assets Used in Service}} = \text{RETURN ON ASSETS}$$

If this is the basis of the estimates, caution should be used in interpreting them. The accuracy of the measures of assets in service need to be clarified. In addition, variable cost is not a measure of operating cost because it does not include a contribution to fixed costs (which includes such items as capital investment, depreciation, and interest.) All traffic must make a contribution to fixed cost for a railroad to profitably serve a market. Moreover, under the principles of differential pricing, it is expected that captive shippers will make a larger contribution than shippers with competitive options. Adjustments for all of these exclusions would increase the estimate of operating cost and, therefore, decrease the estimate of return on assets.

Senator Johnston. Let me ask another question. An April 1985 study by the Department of Energy entitled "Coal Slurry Pipelines: Impact on Coal Markets" found that if we built four coal slurry pipelines, coal users could realize savings of between $200 million and $1 billion by 1995. How can this much money be saved on rail rates if we have the expense of building coal slurry pipelines at a huge cost, and, if there is no abuse of rail rates, as you claim?

Mr. Vaughan. Again, Senator, I am not familiar with that data. I'll be glad to compare it.

Senator Johnston. The Secretary of Energy makes this conclusion.

Mr. Vaughan. This is the current Secretary of Energy?

Senator Johnston. Yes; in the study put out by the Energy Information Administration.

Mr. Vaughan. Frankly, Senator, I'm totally unfamiliar with that. The preponderance of coal slurry pipelines certainly argue that coal slurry pipelines will provide cheaper transportation. That may or may not be.

Senator Johnston. That's certainly what the Secretary of Energy claims.

Mr. Vaughan. I'm not disputing it, Senator, but I do believe that we should have the opportunity to go back and pull that information from the context in which it was stated, compare it, and come back with a thoughtful response rather than one from off the seat of the trousers.

[The information follows:]

In April, the Energy Information Administration published a report titled, Coal Slurry Pipelines: Impact on Coal. This report describes the advantages and disadvantages of coal slurry pipelines, the history of the Congressional debate on eminent domain legislation, and an analysis of the impact on coal markets of four hypothetical coal slurry pipelines collectively carrying between 44 and 48 million tons of coal annually. To provide a range of possible outcomes, the impacts were assessed under three scenarios: (1) low pipeline rate charges/high coal demand; (2) medium pipeline rate charges/medium coal demand; and, (3) high pipeline rate charges/low coal demand. This analysis indicates that:

- Coal slurry pipelines could be competitive with railroads, if the projected pipeline and rail rate charges prevailed.
- Coal users might realize savings of between $200 million and $1 billion in 1995 (in 1994 dollars).
- The railroads could be affected adversely by coal slurry pipeline operations, but railroad revenues (in real terms) from hauling coal in 1995 would still be about one-half to two-thirds greater than those of 1984.
- Only minor shifts in the regional coal production pattern would occur as a result of coal slurry pipeline operations.

The study makes no evaluation of rail rates or railroad profitability. To make such an evaluation, the analysis would have had to compare rail rates to rail costs. No rail cost data was used in this analysis.

Senator JOHNSTON. Mr. Vaughan, I don't mean to deal too much in ridicule, but I feel so strongly about this issue. I think you had trouble getting the facts from the people interviewed in the study (those who burn the coal, and those who mine it), because frankly I think they are somewhat intimidated.

I'm glad that this is a staff working draft and an interim report because I assume this means that you have the right to reexamine it is findings. I would certainly urge you to do so because the coal business in this country is in deep, deep trouble.

We need some help. The Staggers Rail Act of 1980 as presently administered is not in the interest of the railroads, as much as the railroads might think it is. In my judgment, the Act and its administration is carrying coal to be considered less as a fuel option. A lot of people think we're turning from the use of nuclear power to coal. We're not. In fact we're not building any kind of powerplants in this country and we're not using coal.

I know you've got to deal in facts and I know the facts are sometimes hard to come by, but I would simply urge you to look at them. In my view, when the Saudi Arabia of coal is importing coal from Poland, and sometimes from Canada, going all the way through the Panama Canal—there are several cases of this—then something is wrong and I think it's the Staggers Rail Act.

Thank you, Mr. Chairman.

Senator WARNER. Mr. Rockefeller.

Senator ROCKEFELLER. Thank you, Mr. Chairman.

I'm going to borrow Senator Johnston's map for a moment, Mr. Vaughan, because I just cannot help but notice when it says Appalachia that's West Virginia, and the very thought that somehow coal can come all the way around here, from British Columbia through the Panama Canal, and up to Massachusetts cheaper than it can come that short railroad trip, not barge trip but railroad, from Appalachia, Virginia, the State of our chairman, and then West Virginia, my own State, that's incredible to me.

And it's my understanding that the ICC, with its tests, so to speak, of revenue adequacy, market dominance, and rate reasonableness, those three ways of testing the adequacy of how the Staggers Act is working for a captive shipper, and the ways that the ICC uses to make that judgment, whatever their analysis is, the effect has been, as far as I'm aware, that no captive shipper has gotten rate relief as a result of intervention or action by the ICC.

Now in West Virginia, and one can argue terminology, but I don't think one can argue the fact that between 80 and 85 percent of utilities and mines are in a captive situation. That is, they have a simple, one track, one company, one railroad line in and out of their mine. So that when we are told that maybe the Staggers Act or the lack of work on it or the effect of market dominance is adding $10 onto a ton of coal, we in Appalachia cannot look at that idly.

I don't understand that. You say in the executive summary here, and I understand that this is a working draft, you indicate that the Staggers Act does not need modification or some regulatory fine-tuning is in order.

I guess my question is, there has been no fine-tuning that I'm aware of. The ICC has had a number of years now to do something and they have done nothing. With regard to the revenue adequacy test, they say that the railroads do not have revenue adequacy, which, as Senator Johnston pointed out, is on the face of it absurd, in my judgment.

So is it your judgment that the ICC will do some fine-tuning? We can tell them to. We can change the Staggers Act, which would be my approach. But do you think that the ICC, with its history, will do some fine-tuning on a regulatory basis, because you indicate that there are some shippers who are vulnerable to monopoly abuse, I would say 80 to 85 percent in West Virginia.

Mr. VAUGHAN. I believe, Senator, our report indicates that there is the potential for abuse. That is as far as we went. We did not find that there were cases of abuse in the specific case studies that we did.

I would point out to you, sir, that we selected the case to be studied in conjunction with the industries affected, specifically the electric utilities, and inquired diligently into those situations. That was some nine utilities, three public service commissions, and eight railroads.

Subsequently, we went back to 25 more situations seeking the specifics, and again were unable to find specific instances and illustrations of the abuses alleged. We have had considerable communication with a number of the umbrella groups of the type that have been referred to here, and had dialogs with them, and they also have been unable to supply post-Staggers specific illustrations that we found held water upon close examination.

I wholeheartedly agree with your colleague, Senator Johnston, it is our duty to study and report facts, and we, I believe, have diligently sought to determine those facts, and we welcome any information that shows us facts to the contrary—and I emphasize facts.

Senator ROCKEFELLER. I appreciate that, sir.

If I may, Mr. Chairman, may I ask one more question? With respect to the Colombian mine, we're looking at production of maybe 15 million tons, and in their second phase, a doubling to 30 million tons. They are looking at markets in the Far East, Europe, and, of course, in the United States from a West Virginia perspective they are looking at us.

Do you know of any other mine in South America that has a large coal resource base and do you know if—of any companies from this country that have the leases or the rights to develop those coal bases other than the Colombia-Exxon situation?

Mr. VAUGHAN. No, Senator, I do not, but let me hasten to add that that's not an answer coming to you based on an inquiry by me. That's just off my recollection.

Senator ROCKEFELLER. Could you get that answer for me and get it to the chairman?

Mr. VAUGHAN. Yes, sir.

[The information follows:]

According to the Energy Information Administration, there is one major coal field in Venezuala. Reports in the trade press indicate that bids for developing this field have been submitted, but have not been accepted. Among the six known bidders, there are two American firms, A.T. Massey and SME Industries.

Senator ROCKEFELLER. I would appreciate that.

Thank you, Mr. Chairman.

Senator **Warner**. Thank you.

Senator Ford.

Senator **Ford**. Mr. Chairman, I thank you for giving me an opportunity.

Mr. Vaughan, I would like for you to go back in your opening statement and reread to this committee where your finding was that the coal and the rail rates and all that had no effect on generating costs. I want to be sure that I understood your language and understood your statement very well.

Mr. **Vaughan**. I'm looking for it here, Senator.

Senator **Ford**. Fine. That was significant, and I'd like for you to read that again.

Mr. **Vaughan**. I direct you, sir, to page 6. First of all, it does not appear that partial rail deregulation is seriously threatening the future utility of the use of coal in the United States. Most coal is transported in markets that are effectively competitive. We have not yet found any evidence that railroads have raised coal rates to unreasonable levels.

Then there is a discussion of new powerplants. Moreover, coal transportation costs contribute a relatively small amount to the total price of electricity in the United States. As a result, a rise in rail rates, which is more likely to occur in less competitive markets, is not expected to significantly reduce electricity demand or coal consumption.

Senator **Ford**. All right. Thank you, Mr. Secretary.

As I also understood it, you said that the Staggers Act doesn't need to be changed—maybe refined a little bit—and you can find very little pre-Staggers and post-Staggers cost data and are having a hard time getting this information. Somehow this committee doesn't have any trouble getting that information.

And I'd like to just refer you to Iowa Public Service Co. that shows the rates have gone from $8.23 to $14.03 a ton, and that gives a railroad pretax return of 93 percent. Houston Power & Light, it's gone from 1978, when the coal-quoted rate was $15.60; today it's $25.63, an increase of 70 percent.

We have Pennsylvania Power that's already been alluded to, that gives 148-percent return. We have Arizona Electric Power Cooperative that shows 132-percent return. I just wonder where all the information is coming from. Wisconsin Power & Light has pre- and post-Staggers Act captive plants and noncaptive plants. It shows in the three plants that are captive the freight rate increased 106 percent and 75 percent and 78 percent. Under the competitive plants, the freight rate's gone up 16 percent, 6 percent, and 21 percent.

It seems to me that you just looked for your statistics where they would be helpful to your position. You didn't go out and look for statistics. And one other thing. You said you touched base with three public service commissions or regulatory commissions, that they have to have this kind of information before they can compile and agree to any kind of rates. So, it seems to me all the information you wanted could be secured from these public service commissions or whatever they might be called in any of the States very easy.

It wouldn't be any trouble to write to the commission and get the information you need.

Mr. VAUGHAN. Senator, with respect to your list there, I will be more than happy to take that list, take that data, have it analyzed and respond on the record to this committee as to where it falls vis-a-vis the study.

[The information follows:]

The analysis of profitability is described in the insert for Page 36, Line 22. None of the rates provided are adjusted for inflation. The PPA staff has adjusted the estimates provided by the Senate using the AAR deflator. The results are as follows:

	Utility	Annual Percentage Increase in Rates (Adjusted with AAR deflator)
o	Iowa Public Service	2.8% (79-84); -3.98 (78-84)
o	Houston Lighting and Power	-0.3% (78-84)
o	Consumer Power	0.53% (78-83)
o	Arizona Electric Power Coop	-0.4% (77-84)
o	Nevada Power	0.85% (78-84)
o	Pennsylvania Power and Light --Source: Published rate summaries	-0.6% (79-83)
o	Wisconsin Power and Light	
	- Columbia I	6.75% (79-84)--utility 2.4% (79-84)--railroad
	- Columbia II	3.2% (79-84)--utility 3.1% (79-84)--railroad
	- Edgewater	3.7% (79-84)

The data provided indicate that the only rate that may have exceeded the zone of rate flexibility is Wisconsin Power and Light's Columbia I plant. Further work should be done on this case, since there is substantial disagreement between the utility's estimate and the estimate provided by the railroad.

Senator **Ford**. Well, that's fine, but it appears that you were saying in your report you couldn't get this information, that you limited it to just certain—you used selective utilities and public service commissions.

Mr. **Vaughan**. What we did, Senator, was select what we believed to be the worst cases and we did that in consultation with the coal and electric utility industry. We then examined those cases, and we reached the conclusions that we did from those examinations. That did not support the claims, the charges, and the rhetoric that was then extant and continues.

So we went back and examined 25 other cases and were similarly unable to find, upon detailed examination and analysis, the facts that support the charges that the railroads pursuant to the Staggers Act are charging excessive rates to the utility hauling of coal.

Senator **Ford**. Well, quoting the Governor of Texas, 50 years ago they stopped Texans from robbing railroads. They want the railroads to stop robbing Texans now. And the point that we're making is that we're captive in Appalachia, and you see what's happening to us.

I'll tell you one thing that I want to get answered before the day's over, Mr. Chairman, is how much the Government put in, the Government of the United States, in loans and so forth to the mine in Colombia. I want to have that answer, if I can get it, before this committee hearing is over, to find out how many bulldozers, how many shovels, how many of those big——

Senator **Warner**. Maybe our next witness can supply that answer.

Senator **Ford**. Well, I can tell you I want that information.

Senator **Warner**. That got his attention.

Senator **Ford**. His barber's been cutting out all of his black hair. It is turning white on him.

But these are the sort of things that I think we have to be interested in. We keep playing games. Our people keep going down the drain, and we keep sending money overseas to displace our workers, and I'm getting a little bit tired of it, and I hope we can get an explanation of it, Mr. Chairman.

I appreciate the opportunity of being here this morning.

Senator **Warner**. Well, we wouldn't want a hearing without you, Mr. Ford.

Senator **Ford**. Thank you very much.

Senator **Warner**. And you ended up on a note all of us share. We will now have the next witness, Mr. Wendt, Deputy Assistant Secretary for International Energy and Resources Policy of the Department of State. We welcome you, Mr Secretary.

STATEMENT OF HON. E. ALLAN WENDT, DEPUTY ASSISTANT SECRETARY OF STATE FOR INTERNATIONAL ENERGY AND RESOURCES POLICY, DEPARTMENT OF STATE, ACCOMPANIED BY RON PARSON, OFFICE OF ECONOMIC AND BUSINESS AFFAIRS, DEPARTMENT OF STATE

Mr. **Wendt**. Thank you very much, Mr. Chairman. I would like to thank you and the other members of the subcommittee for this opportunity to testify this morning on the potential impact of coal imports on the United States.

With your permission, Mr. Chairman, I will just give an oral summary of my full testimony.

Senator **WARNER**. Your full testimony will be included in the record.

Mr. **WENDT**. Mr. Chairman, the administration believes that market forces should determine energy prices. Restrictions on the import of coal, in our view, would distort the market and lead to economic inefficiencies. Coal trade has flourished in the past in an unregulated market. We do not think the U.S. coal industry would benefit in the long run from a coal tariff, which might actually result in reduced exports of American coal.

Imported coal will not be competitive for the vast majority of U.S. markets, and imports are unlikely to capture more than 1 percent of U.S. coal consumption in 1990. Moreover, a fall in the value of the dollar would reduce incentives to export coal to the United States.

In our view, Mr. Chairman, the harm caused by restrictions on imported coal would significantly outweigh the benefits. Restrictions would weaken the markets for exports of American coal and other products, would raise domestic electricity prices, could provoke retaliation against U.S exports, increase U.S. vulnerability to an oil supply disruption, and harm U.S. investments and sales in Colombia.

In sum, Mr. Chairman, the Department of State and, indeed, the administration strongly oppose any restriction on imported coal. My written statement explains these points in greater detail for the record, and I would be pleased to try to answer any questions you or the other members of the subcommittee may have.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Wendt follows:]

COAL IMPORTS

E. Allan Wendt
Deputy Assistant Secretary of State
for International Energy and Resources Policy

Before the

Senate Subcommittee on Natural Resources
Development and Production

June 6, 1985

My name is Allan Wendt. I am Deputy Assistant Secretary of State for International Energy and Resources Policy in the Bureau of Economic and Business Affairs of the Department of State. I would like to thank Chairman Warner and the other members of the Subcommittee for this opportunity to testify on the potential impact of coal imports on the United States.

The Administration believes that market forces should determine energy prices. Restrictions on the importation of coal would distort the market and lead to economic inefficiencies. Coal trade has flourished in the past in an unregulated market, and we do not think the U.S. coal industry would benefit in the long run from a coal tariff.

The U.S. has very large amounts of coal; there are demonstrated reserves of 490 billion tons. U.S. production costs are competitive with those anywhere in the world. The United States will always produce most of the coal it consumes. Consumers will import coal only in those special cases where the delivered cost of domestic coal is higher than for imported coal, owing largely to long-distance inland transport costs. According to the Commerce Department study entitled "Potential for U.S. Steam Coal Imports", this appears to be the case for some utilities in Texas, Illinois, Florida, and other states easily accessible by water. For the vast majority of American markets, however, imported coal is not competitive, and imports will therefore capture only a very small percentage of the U.S. market.

The level of coal imports will depend in part on the strength of the dollar. The current strong dollar makes imported coal cheaper. A fall in the value of the dollar would make imported coal more expensive, and less would be imported. Many of the problems caused by a coal tariff, however, would remain. A coal tariff might well be a permanent measure to deal with a temporary problem.

The Commerce Department study estimates in its first case that up to 6.4 million short tons of coal may be imported by 1990. This is less than one percent of the predicted total U.S. coal consumption in 1990 (954 million tons), and less than one percent of forecast coal consumption by utilities in 1990 (785 million tons). The percentage increase in coal imports may appear steep - from 1.3 million tons in 1984 to 6.4 million in 1990 - but the absolute amounts are small relative to U.S. coal use, and they are likely to level off. The second case in the Commerce study estimates that up to 17.7 million tons may be imported, of which 16.5 million would come from

Colombia. This case is unrealistic. Colombia would have to expand production by 10 million tons beyond the 16.5 million now planned for 1990. Of that 16.5 million tons, European utilities have already contracted for 5 million and are negotiating to buy 5 million more. It is important to remember that the Cerrejon project in Colombia was developed for the European market; exports to the U.S. are occurring only because the European market is currently depressed and the strong dollar makes exports to the U.S. attractive.

What would be the impact of a coal tariff? Let me begin with the U.S. coal industry. Restrictions on imports of coal may harm the very industry they are designed to protect. When foreign coal is kept out of the U.S. by tariffs, it will be sold instead on the international market. There, it will displace, in part, U.S. coal exports (81 million tons in 1984) and lower world coal prices. Other countries may seize on the precedent of a U.S. coal tariff to protect (or further protect) their inefficient coal industries. A U.S. coal tariff is likely to reduce U.S. coal exports and lower the prices they bring.

U.S. exports unrelated to coal could also be harmed by a U.S. coal tariff. The General Agreement on Tariffs and Trade, which the U.S. has signed, requires that a new tariff be compensated for by reduced tariffs on other imports. One wonders if we should accept increased foreign competition for some U.S. industries in order to reduce it for coal. In addition, some countries hurt by a U.S. coal tariff may erect retaliatory tariffs on U.S. products. One candidate for a retaliatory tariff might be exports of chemicals from the U.S., including chemicals produced in states that also produce coal. Thus, a tariff that helps coal miners might end up harming chemical workers.

Restricting coal imports would raise the cost of coal for some utilities, and thus the cost of the electricity they produce. With more expensive electricity, the factories served by these utilities would face increased production costs and might become less competitive both at home and abroad. Individual consumers of electricity would also pay higher prices. A coal tariff levies an extra charge on American consumers for the benefit of American miners. Based on the study done by the Commerce Department, it appears this extra charge would be borne by the residents of Texas, Illinois, Florida, and fourteen other states.

Restrictions on coal imports would have foreign policy effects as well. Protectionist measures for U.S. coal would make it difficult for us to argue against similar measures by other countries, as we have done - with some success - in the International Energy Agency and elsewhere. The higher cost of coal resulting from a tariff would discourage some U.S. utilities from switching from oil to coal, and leave them dependent on expensive oil from less secure sources. Imported coal would be a fairly secure source of energy, and substitutes could be easily found should supplies be cut off.

Most of the projected U.S. coal imports are likely to come from Colombia. The U.S. has an interest in the success of the new Colombian mines. The Exxon Corporation has invested $1.5 billion in the project. The Export Import Bank has loaned $850 million to the owner of the project, Intercor. American firms have earned over $500 million in equipment sales and construction contracts, and will earn more in the future. Coal exports will earn foreign exchange for Colombia. Much of that foreign exchange will be used to pay for imports, one-third of which traditionally come from the United States, and to service foreign loans, many of which are American. Most of the coal exports from Colombia are likely to be exported to Europe, and provide more secure energy than Mideast oil or Soviet gas.

In summary, Mr. Chairman, the harm caused by restrictions on imported coal would significantly outweigh the benefits. Restrictions would reduce exports of U.S. coal and other products, raise domestic electricity prices, set a tariff precedent we do not want, increase U.S. vulnerability to an oil supply disruption, and harm U.S. interests with a valued neighbor. The Department of State strongly opposes any restriction on imported coal.

I will be pleased to answer any questions you or other members of your Committee might have.

Thank you.

Senator WARNER. Well, let's lead off with the question of the degree of support the Government of Colombia is providing for this particular mine. As I understand it, it's a partnership, so to speak, with a major U.S. firm.

Mr. WENDT. It is a 50-50 partnership between the Exxon subsidiary Interior and the Colombian Government coal firm Carbocol.

Senator WARNER. Can we be more specific as to what the Government itself, the Colombian Government, is putting into this mine?

Mr. WENDT. Intercor and Carbocol have each put in about $1.5 billion.

Senator WARNER. I don't know of any coal mine—Mr. Vaughan, do you know of any coal mine in the United States getting a direct subsidy from the U.S. Government?

Mr. VAUGHAN. No, sir.

Senator WARNER. Well, then let's deal with the one in Colombia. We'll see where the equity is in this.

Well, I'm reading from the May 15 edition of Coal Week International. It says the U.S. Export-Import Bank has approved financing for $200 million in export sales of U.S. goods and services to be used in the development of the Colombian coal production.

Mr. WENDT. Mr. Chairman, the total Exim commitment is $617.5 million in loans and $105 million in guarantees on loans from the private sector. I don't think all of it has actually been drawn down.

Senator WARNER. You think we can catch that in Congress before it's too late? You don't have to answer that. [Laughter.]

Mr. WENDT. I should add, perhaps in anticipation of a later question, that all of that sum is going for American equipment sales and construction contracts.

Senator FORD. I can tell you what State it's in, too.

Senator WARNER. It's clear that those funds will benefit a series of companies. Sales should increase employment of several U.S. suppliers—GE, Fortune Freight Car Co., WABCO, a division of Dresser, Ingersol-Rand, Goodyear, Atlas Powder, Morrison-Knudson, and some others.

My time is up.

Senator Johnston.

Senator JOHNSTON. Thank you, Mr. Chairman.

I would just say that as a strong supporter through the years of Exim Bank, the quickest way to erode my support would be to continue with a number of these kinds of loans. The Eximbank is supposed to be preserving American jobs by allowing them to compete with others. An example is the case of Boeing competing with Airbus.

In the case of Colombia, we're doing exactly the opposite, by sending American taxpayers' dollars out of the country so we can build a competitor for American coal. It's just ridiculous.

Mr. Wendt, how many nations are we importing coal from?

Senator WARNER. First, if you would yield, would you identify the gentleman to your right and what his capacity is?

Mr. WENDT. Mr. Chairman, his name is Ron Parson, and he works for me at the Department of State in the Office of Economic and Business Affairs, and he is in possession of some data and facts that might be pertinent to the questions asked.

Senator **Warner**. Thank you very much. Please continue, Senator.

Senator **Johnston**. How many countries do we import coal from?

Mr. **Wendt**. We import very small amounts of coal from about four or five countries—Colombia being one of them.

Senator **Johnston**. Four or five countries. That's all I wanted to know.

Now I understand that the Eximbank between the years 1975 and 1984 authorized funding for coal projects in eight different countries, including Brazil, Australia, Colombia, Zimbabwe, the Philippines, Spain, Yugoslavia, and Turkey. Some of these countries even have more than one coal project in their country that has been authorized by the Eximbank.

You're responsible for coal imports for that area of our international trade. Does Exim ever talk to you about these projects?

Mr. **Wendt**. Not directly, no, but I am sure they notified the Department of State and other agencies. All of these cases are referred to an interagency committee that includes the State Department.

Senator **Johnston**. Were you aware of it?

Mr. **Wendt**. I'm sorry?

Senator **Johnston**. Were you aware of the authorizations they've been making?

Mr. **Wendt**. Generally aware, yes.

Senator **Johnston**. I'd like to put the list of coal projects authorized by the Export-Import Bank in the record, if I may, Mr. Chairman.

Senator **Warner**. Without objection.

[The list referred to follows:]

EXPORT-IMPORT BANK OF THE UNITED STATES SUMMARY OF COAL PROJECT AUTHORIZATIONS, 1975–84

Credit No	Date authorized	Country	Export value	Amount authorized
6160	Feb. 5, 1976	Brazil	$4,670,000	$2,102,000
6767	Jan. 23, 1980	Australia	4,800,000	2,400,000
6853	Mar. 24, 1980	Colombia	27,400,000	16,440,000
6891	Aug. 26, 1980	Australia	19,834,000	9,917,000
6911	Nov. 20, 1980	Zimbabwe	51,263,000	33,321,000
7018	Feb. 24, 1981	Australia	18,300,000	11,895,000
LNS6993	Sept. 21, 1981	Philippines	5,100,000	2,168,000
7169	Feb. 2, 1982	Spain	29,000,000	12,325,000
7190	Aug. 10, 1982	Colombia	650,000,000	487,500,000
7322	Jan. 24, 1982	Yugoslavia	18,888,000	14,166,000
FG7338	Mar. 27, 1984	Turkey	216,795	184,275,000

Senator **Johnston**. How much of the coal used domestically by the United States is imported?

Mr. **Wendt**. Approximately 1.3 million metric tons is imported out of a total domestic production of, I think, over 800 million tons.

Senator **Johnston**. OK. Would you know what the potential is for imports in this counry?

Mr. **Wendt**. Well, in the specific case of Colombia, which is——

Senator JOHNSTON. Specifically, would you know what the overall potential is?

Mr. WENDT. The overall potential from coal imports from all sources is about 6.4 million tons, and in the specific case of Colombia——

Senator JOHNSTON. I don't want to go into that.

Mr. WENDT. It's a very small percentage.

Senator JOHNSTON. All right. Have you studied the question of the cost of coal at the mine mouth in the United States as opposed to transportation, and how that relates to the cost of coal at the mine mouth in foreign countries?

Mr. WENDT. We have not at the Department of State studied that in great detail, but I believe the Department of Commerce study, which has already been mentioned this morning and which I mention in my testimony, goes into that in some detail.

Senator JOHNSTON. I am interested in the question of competition and whether it is the cost of coal at the mine mouth where the United States is losing out to foreign countries, or whether it is in fact, because of the high rail rates as affected by the Staggers Rail Act. I would submit it is the latter, as the Western Governors have submitted recently in a DOE-financed study.

The Western Governors Association issued a report funded by a DOE grant in the spring of 1985 that says that the major cloud on the horizon for the future of western coal is the high cost of transportation. They conclude that 4 years experience with deregulation of the railroads and the performance of the ICC under the new regulatory environment have led many shippers and buyers of rail transported commodities to believe that national legislation is needed to give better protection to shippers in monopoly service areas.

Would you agree with this perception, or would you contend that the new deregulated environment is really a case of the invisible hand working to let the best winner win?

Mr. WENDT. The previous witness has gone into that issue in some detail.

Senator JOHNSTON. Yes; I was here.

Mr. WENDT. And I would not propose to go into it in similar detail. Foreign customers for American coal do complain that the delivered cost of U.S. coal abroad is not competitive, and they blame high inland freight rates.

Senator JOHNSTON. In your initial statement you stated that you don't think we ought to have tariffs or other import disincentives. I agree we ought to have free trade. I was wondering whether the basis of your statement was that we have a free, open and competitive market now and that the reason we're losing contracts to foreign countries is because their coal is cheaper at the mine mouth. Or are you saying it is because of transportation costs?

Mr. WENDT. I would like to respond, Senator, because there are well-documented opinions on both sides of the question of the importance of inland freight rates in the delivered cost of American coal. Certainly, some coal producers have access to only one source of transportation, and a bit of competition is not a bad thing in the business of transporting coal.

It would certainly tend to make American coal more competitive both in facing imports and in exporting our coal to markets abroad. The competition could come from second rail lines. It could come from coal slurry pipelines. But I'm not taking a position one way or the other on whether or not the real problem is inland freight rates.

I, certainly, would expect that it's a factor and foreign buyers of American coal very often cite it in complaining about the lack of competitivity of American coal. Of course, the strength of the dollar has also been a factor in the last few years.

Senator JOHNSTON. Foreign buyers cite inland freight rates as a factor that lessens the competitiveness of U.S. coal?

Mr. WENDT. Yes; they do.

Senator JOHNSTON. Thank you very much.

Senator WARNER. Senator Rockefeller.

Senator ROCKEFELLER. I thank you, Mr. Chairman.

Mr. Wendt, the amount of money which has been referred to with respect to the Eximbank loans to the Colombia project are justified by some on the basis that the Colombians are going to turn around and take that money to buy American built machinery and equipment and, in fact, that's what's happened. There have been about $320 million to date of purchases and about $180 million of purchases where the money hasn't been spent but the commitments have been made.

So, that's about $500 million. So, that's a kind of a classic free enterprise argument. In other words, you're going to give somebody else something, but they're going to turn around and buy stuff back from you.

On the other hand, for those of us in Appalachia—Virginia, West Virginia would be two, I would submit—who not only have serviced, traditionally, the southeastern coal market but also, as in the case of West Virginia, export in vast quantities. West Virginia exports over 45 percent of all of the coal that's exported out of this country from any State.

I look at this chart which was provided to my staff—by Exxon I believe, and there is no correlation between where the money is being spent to purchase goods with the extra money and where the jobs potentially will be lost as a result of the Colombian coal production. And I might just point out, Mr. Chairman—I'd like to submit this for the record—California is not, as of the last of my readings, a major coal-producing State, but from these Eximbank loans they're going to get close to $60 million of machine purchases.

Massachusetts is not notable for its coal mines, but they get $17 million. New York has underground work, but it's mostly called subways, and they get $32 million. Texas has lignite, but no coal; they get $40 million. Virginia, which is a major producer, gets $100,000, at the same time they lose jobs. West Virginia, which is a major producer, second in the nation, the leading exporter, gets $200,000.

Now, you know, that's crazy. That's the free market sticking it to Appalachia and to the people that produce the coal. If that's a good deal for America, I fail to see it. If anyone asserts that's a good deal for West Virginia, I know that's wrong.

Don't you see something wrong with that sort of fundamental displacement even under a free enterprise philosophy, where you get an aging industrial Midwest or northern Appalachian section with steel and other industries, and people say well, that doesn't matter. The money's moving elsewhere. The market's moving elsewhere. So, let's just let Appalachia struggle for itself. California gets the money; West Virginia loses the jobs. What's fair about that?

Mr. WENDT. Senator, I fully appreciate the problems that you have outlined this morning in your opening statement and in the questioning of the previous witness, and I certainly would not suggest in any way that they are not indeed very serious.

I think my answer would be that in an open trading system it's difficult to impose a concept of fairness of the sort that you suggest, so that, for example, the purchases of American goods and services with an Eximbank loan would be directed in this case to your State.

Our economy simply couldn't function on that basis. I am not saying that from the standpoint of the miners who may be unemployed, that is a fair system. But I would say in this case that the proposed remedy; namely, tariff protection, would create more problems than it would solve and that as a long-term measure it would not be in the best interests of the United States or even the coal industry, for that matter, for the reasons that I cite in my testimony.

It is a matter of looking at the overall costs and benefits of a proposed measure, and it is very difficult for us to approach the problem in any other way. I say that with all due sensitivity, however, to the problems that you raise.

Senator ROCKEFELLER. I understand. Don't you agree that whereas it's quite possible that this morning we're going to hear that the amount of coal that is actually being exported from Columbia to this country at this point is not very big, in fact, is less than 1 percent of the total usage, wouldn't you also agree, however, that it isn't just today that you have to look at?

You have to look at when the long-term coal utility contracts run out in 1990. It's not just today that counts, but you have to look at what direction it's moving in. And if it's 15 million tons that they're gearing for in phase 1 and 30 million tons that they're gearing for in phase 2 and they want to hit the Far East, Europe and the United States, and the United States is the closest by far, is it not reasonable for us in Appalachia to worry heavily about the future of their intrusion on what has traditionally been our market in spite of railroad costs?

Mr. WENDT. Senator, as I said in my testimony and as explained in greater detail in the written testimony, we do not see the potential impact of Colombian coal, even looking out to the year 1990, as being very great. When that project was conceived, its organizers, its promoters, had in mind mostly markets in Western Europe and that indeed, as we look ahead, is where most of that coal is likely to go.

It has come into the United States only in a few areas readily accessible to water transportation. I think the strength of the dollar has been a factor. But overall, we do not see the kind of potential for imports of coal from Colombia that would represent a significant threat. Indeed, making our own coal industry more competitive, and a lot has been said about that already this morning, is probably the best answer.

Our coal potential is enormous. No matter what happens in Colombia I think that the overwhelming majority of coal consumption here is going to come from domestic coal producers. And indeed we also should have a thriving export industry. It is a question of remaining competitive. Perhaps there are further steps, as has been said this morning, we can take to ensure that our coal is competitive.

I think that is the solution.

Senator **Rockefeller**. My time is up, Mr. Chairman. I have many more questions I want to ask, but my time is up.

Senator Warner. I thank the Senator. I didn't use all my time, but I would observe that the next target for this coal—and you wouldn't know that—is going to be Virginia. I happen to have been tipped that a major utility is looking at it, and I don't want to see my coal miners take less wages or poorer living standards. I don't want to see a regression in any of our environmental advancements. And those are the areas primarily that Colombia has an advantage.

On top of it, the Government subsidy. And I don't want the U.S. Government subsidizing Virginia coal mining. I guess the concern that we have here is one of astonishment, if I may say, as my colleague from Louisiana and I have been talking, that the Eximbank would go out and select the Government of Colombia as a working partner with a 50-percent interest in a mine that's going to come back and directly compete on the magnitude and scale—I think we have a difference of view as to what the potential might be—with our coal industry.

Senator Ford.

Senator **Ford**. Thank you, Mr. Chairman.

I think we're getting into an arena that is beginning to surface, Mr. Wendt, which is a concern to working America. We talked this morning about $600 million loan to the Government of Colombia to fund its 50 percent of the new big mine, and you say that's negligible. It's only about 1.3 million metric tons. Well, that happens to be long tons, and we figure in short tons, which is 2,000 pounds. That makes 1.6 million American tons or short tons.

And to me in Kentucky that's eight small mines. Every opportunity for a job in that area is annihilated in those eight small operations. That's just beginning to get the camel's nose under the tent. And we loan their money, which is their tax dollars, to displace them. You say oh, it's not going to be much; it's just a little bit.

And we find the budget submitted to the Congress eliminating Amtrak. You know, that's their decision. The sixth largest passenger carrier in the country would be about $600 million with the cost going down, but then when you begin to look at foreign aid and all the facets we have, we find that we're spending or approving about $827 million for the improvement of railroads in India, Pakistan, and Korea. That's a 50-year noninterest loan with a 10-year delay in payment.

And we ask our people to pay their hard-earned money to displace them, and that is a philosophy that's beginning to clash, and I think we've got to look at them very hard.

You're Assistant Secretary for International Energy and Resources Policy from the Department of State. Here is our international affairs representative in the energy field, and yet we see our possibilities eroding. You think—let me give you some international flavor here, if I may.

The Italian head of ENEL made a speech before the second U.S.-European coal conference in the Netherlands on April 22 to 24 of this year. Are you aware of that and were you in attendance or anybody there from your shop at that meeting?

Mr. **Wendt**. I was not there myself, Senator. Personnel from the American Embassy in The Hague attended, and our Ambassador gave the keynote address.

Senator **Ford**. Well, let's just look at one paragraph from the Italian head of energy in that country, and I quote from him:

> But the most worrying issue is the evidently monopolistic strategy pursued by the railroad companies, which is not effectively prevented by the U.S. governmental authorities or Congress itself. Thus, the risk exists that the strategy and activity itself of coal exportation from the United States is in actual fact governed and conditioned by the strategy and economic choices, which may be wrong, made by railroad management and men.

And so now that we sit here this morning and talk about something to correct that through the Staggers Act we find hell, it's all right. Leave it alone. We'll take care of it by regulation. We'll hold hearings. We'll go out and find the facts. And you can just walk down the street to FERC and get all the information for this dang report from any electricity that's generated for wholesale. They have to file the same thing there.

They could get all of that and compile it in a matter of hours, and yet we've got to have a report here that is selective. We find our people fighting for their lives. We're getting to a point, Mr. Secretary, in my opinion, of being protectionist, because we're giving away the store in every industrial facet we have.

We are no longer the leaders in technology sales. We see it declining. We've opened our borders. We're the only big—you know, Barnum said there's a sucker born every minute. What he forgot to tell us was there's two people looking for him. And so that is my opinion of the international strategy as it relates to international trade.

Mr. **Wendt**. Well, Senator, if I may comment briefly on the points you make, with particular regard to coal, I am glad you mentioned Italy. That happens to be a country to which our exports of coal have actually increased.

Senator **Ford**. That is correct, and Kentucky has sold some. We sent the State Governor over there. We didn't have you all help us.

Mr. **Wendt**. The administration has done a great deal to promote the production, trade, and use of coal internationally. We have worked very hard in the International Energy Agency to convince some of the member States that still produce coal on an uneconomical basis that they should phaseout those inefficient practices and rely on competitively-priced imported coal. And, needless to say, we have in mind American coal.

There have been any number of trade missions that have gone overseas, as our representatives from the Department of Commerce can tell you, to promote the sale of American coal abroad. We have worked on this problem in international settings like the International Energy Agency and also bilaterally.

We have had any number of talks with the Japanese to try to induce them to buy more American coal. Our sales to Japan, although still considerable, have fallen off.

Senator FORD. If we give Japan a bushel of coal for every car they send over here, it would improve our situation considerably.

Mr. WENDT. We are working hard on that problem, Senator, and I think we're going to make headway, because I think basically the American coal industry is competitive. It can be made more competitive. It has been hurt recently by the strength of the dollar, and perhaps there are some aspects that are not as competitive as we could make them. Those aspects have been touched on this morning.

I am not in a position to go into that in great detail, but I think we all know what they are. I am a believer in the future of the American coal industry, not only domestically but in terms of export sales, for which we have very great potential.

Senator WARNER. We thank you, Mr. Secretary.

Senator NICKLES. Mr. Chairman?

Senator WARNER. You just returned from Oklahoma. I saw you on television this morning.

Senator NICKLES. I came so I could talk about coal.

Senator FORD. Can you loan me a little bit of money for my campaign? [Laughter.]

Senator WARNER. We've got an oil man in this coal hearing here. [Laughter.]

Senator NICKLES. That's right.

Senator WARNER. My forgiveness to my distinguished colleague.

Senator NICKLES. Thank you, Mr. Chairman, and I apologize for being a little late to the hearing.

Mr. Wendt, just looking at your statement I am concerned about statements that I hear from Senator Rockefeller and Senator Ford and others and Senator Warner, when they mention Eximbank basically loaning money for coal production in other countries.

How much of a loan are we talking about?

Mr. WENDT. About $617 million in loans and $105 million in guarantees, Senator, against which contracts have already signed for about $500 million. I should say that the loan was approved at a time when coal demand was forecast to continue rising steadily. In fact, that market assessment has not been borne out.

Senator NICKLES. Tell me, when was that loan approved?

Senator FORD. 1982.

Senator ROCKEFELLER. 1982 was when the $650 million Export Import Bank loan was approved.

Mr. WENDT. About 3 years ago, yes.

Senator NICKLES. 1982. So that's a typical bureaucratic fashion; 1982 is when the entire energy market seemed to crash or oil prices, coal prices, everything else, seemed to take a slide, $600 million were committed at that time. At what interest rate?

Mr. **Wendt**. Twelve percent on $487.5 million, and 11.2 percent on $130 million, Senator.

Senator **Nickles**. Would you get that for me?

Senator **Warner**. Well, let's get a ballpark rate here. I bet you could come within a quarter of a point.

Senator **Nickles**. Are we talking about some of these 40-year——

Mr. **Wendt**. The $487.5 million is payable in 15 years and the $130 million in 10 years.

Senator **Warner**. Your colleague next to you with a base of fact, he doesn't have that interest rate?

Senator **Nickles**. Is it a low-interest subsidized loan?

Mr. **Wendt**. Exim is mandated by Congress to be competitive with other governments' official export credit agencies, and Exim's rates are now close to market rates.

Senator **Nickles**. Mr. Wendt, I glanced at part of your statement and, Mr. Vaughan, your's as well, and I heard you say a lot of times free market principles should prevail, and I don't disagree with that. I don't even disagree with your statement that import tariffs, whether they be on petroleum or coal, would probably have a counterproductive impact on, a lot of times, the industries of the States or the people we're trying to help.

But I don't think it's free enterprise when we are turning around, as Government turning around and loaning money to basically increase competition in other countries. And that's exactly what's happening. It is not just confined to coal. It's happened in agriculture. It's happened in other industries where we supposedly are trying to help the other country.

It may be a noble purpose, but when you see it costing jobs, when you see the surpluses domestically, whether they be agriculture, whether they be coal or whether they be steel or other industries, that bothers me and it bothers me a lot. We don't have that $600 million to be giving away to other countries.

If Exxon wants to develop Colombian coal, that's fine. They have enough money to do it and I don't disagree with their right to do it. But I really disagree with taxpayers' dollars, Eximbank—and I'm glad the administration's making some changes in Exim; I hope that we take a more serious look at it. We have State Department authorization on the floor this afternoon and possibly it would be the right place. If it's not, we might look at other places.

But to see these loans—I'll give you—I don't want to change the scope of the hearing, but in Argentina agriculture loans were made to develop, basically to increase their agriculture base, and now they're very competitive exporting and making it very difficult to ship agricultural products. And this same type of thing again, if Exxon or whoever else wishes to develop it.

But for us to be subsidizing these governments in government productions with taxpayers 'dollars, that's not free enterprise.

Mr. **Wendt**. Senator, as I noted earlier, all of the Exim loan comes back to the United States.

Senator **Nickles**. I don't care if they spend $150 million of it back in the United States. It makes no sense for us to be giving away $600 or $800 million, of which we can't afford, and then for the future years be faced with that much additional world production, which will be competitive.

Mr. **Wendt**. Senator, it is a loan. It is not a give-away. This is not foreign aid, and when the loan was made the purpose obviously was not to create competition for U.S. producers.

Senator **Nickles**. You tell me what the interest rate is, and I'll tell you what kind of foreign aid it is.

Senator **Warner**. And the length of the loan.

Senator **Rockefeller**. Twelve percent per annum is the interest rate.

Senator **Warner**. Twelve percent. Over how many years?

Mr. **Wendt**. That is a pretty high interest rate.

Senator **Warner**. Do we know how long the loan is?

Mr. **Wendt**. Fifteen years for $487.5 million, and 10 years for $130 million.

Senator **Nickles**. If it was purely market rates, you wouldn't have Exim involved in the first place. If it was a purely market deal, I don't think we would be looking at the Federal Government or the taxpayers to be coming up with that kind of support.

Mr. **Wendt**. Again, the purpose of the loan was not to displace American production. It was anticipated, and we still believe this is true, that most of the production of coal from Colombia would go to Western Europe.

Senator **Nickles**. You're adding to world production. You add to world production and world supply, you're making it that much more difficult for us to be able to increase our exports. Granted, I agree with you; I think we are competitive and we need to be more competitive. Coal exports are a tremendous opportunity potential for this country to make some progress in our negative balance of payments and trade.

But I don't think making these type of loans of almost $1 billion to other governments, other governments are going to be basically—you know, we don't believe in socialism in this country and then we turn around and loan other governments that own half of the production—I'm assuming that's correct in this case—in other words, we don't believe in it in this country, but we're going to help finance it in another country. And that makes no sense.

And again I agree in free market principles, and I don't think you'll find anybody that will defend them more strongly, but I don't see any common sense whatsoever, and I realize the biggest problem that I have is with Exim, but I just fail to see the wisdom in it.

We did the same thing with a phosphate plant where this government of ours, Exim, went out and made a big loan for a phosphate plant in northern Africa. We did it, and now we can't sell phosphate. Matter of fact, we're losing sales. We're shutting down plants all across the country. That just makes very little sense.

Mr. **Wendt**. Senator, I know the hearing is not on Exim and I am not here to try to go over the record of Exim's lending policies. But I would suggest that, all things considered, Exim has done a great deal of good for the United States in supporting the sale of American goods and services. I am sure there are many other instances of Eximbank loans that you would heartily approve that have been of great benefit to this country.

And we think that the Eximbank's participation in international trade in this manner is, on the whole, beneficial. If we do not provide loan support of this sort at interest rates that appear to be quite competitive, we might just lose more foreign markets to other countries that do support their export industries in this manner.

Senator NICKLES. Well, I've heard the old Exim argument. Well, yes, we'll put in so many hundreds of millions of dollars and as a reward for that we're going to buy most of those materials in the United States. Great. But then you have the increased production that you are going to be fighting or competing with in the outyears for some time. And I fail to see the wisdom of it, especially considering the fact that we have limited capital, the price of capital domestically and so on.

I have a real problem with it, especially, too, when we're loaning it to other governments. Again, I don't believe in nationalized or socialized industry, and when you see governments like most of our South American industries are, they're government-controlled or government-owned, I think that even compounds the situation.

Senator WARNER. Senator, I share your views, and when the witness says the loan was made on the basis that they would primarily be exporting to other areas of the world, those are the very areas of the world in which Virginia and West Virginia coal is being exported.

Mr. Secretary, you've handled yourself commendably, and I know from your experience you will not take any of our comment or intonations of voice in a personal manner. We recognize that you're a public servant, like we, but we're a little closer to the people sometimes than those folks up here in Washington lending the money. I think Mr. Ford eloquently touched on that and captured the sentiment of this committee.

We thank you. We thank your colleagues.

We will now have the next panel. The next panel will be the Honorable Michael T. Kelley, Deputy Assistant Secretary for Basic Industries, Department of Commerce, and Dr. Hermann Enzer, Assistant Director, Mineral Data Analysis, U.S. Bureau of Mines.

Secretary Kelley, would you lead off, please?

STATEMENT OF HON. MICHAEL T. KELLEY, DEPUTY ASSISTANT SECRETARY FOR BASIC INDUSTRIES, DEPARTMENT OF COMMERCE, ACCOMPANIED BY DR. JOSEPH YANCIK, OFFICE OF ENERGY, INTERNATIONAL TRADE ADMINISTRATION

Mr. KELLEY. Thank you, Mr. Chairman. If I could correct for the record in the front here, my spelling is K-e-l-l-e-y.

Senator WARNER. Well, our ladies do the best they can under short notice.

Mr. KELLEY. That's what happens when you become fifth generation Irish.

Senator WARNER. That's all right. You should see some of the ways my name is spelled. Don't worry about it. You're coming off lucky.

Mr. KELLEY. Thank you. Mr. Chairman, thank you for inviting us to this hearing. I think that these are very significant issues. We have had hearings on the House side. Congressman Rogers of Kentucky was the person who introduced the amendment on the House side that initiated the report that we talked about over in Congressman Rahall's hearing about 4 or 5 weeks ago.

What I'd like to do is switch from my Virginia residency to my New England background and read my statement a little bit quicker, because I think the two areas that we're covering are the study areas that are of interest to this committee and I think it's important to understand how we, No. 1, conducted the first part of the study and, No. 2, what's going on with the second part of the study that's still underway.

My name is Michael T. Kelley. I'm Deputy Assistant Secretary of Commerce for Basic Industries. To my right here is Dr. Joseph Yancik, who most of you know. Joe is the head of the Office of Energy within the basic industry sector, International Trade Administration.

My particular sector contains the Office of Energy, which since its inception as the Coal Export Staff under the Assistant Secretary for Trade Development, has been concerned with programs to promote coal exports and policies to improve U.S. coal's ability to compete in the world market.

The Office of Energy has the administration's lead role in implementing the national coal export policy as of July 1981. In my remarks I will describe the current status of our study to assess the potential for increased coal imports.

First, I shall briefly summarize the results of part I, which was recently submitted to the House Appropriations Committee, which had requested the study. Part I is an analysis of the potential for the penetration of imported coal into the U.S. utility market in 1990 and the potential impact on domestic coal production and U.S. coal exports.

Then I will discuss the status of part II of the study, which is a joint effort with the U.S. Bureau of Mines. The Bureau in their statement will cover in more detail their efforts and role. Part II, the second and final part of our coal import study, examines in some detail the condition in coal mines of those countries which have the potential to export coal to the United States.

The House Appropriations Committee requested——

Senator **WARNER**. Mr. Secretary, now we're going to put your entire statement in the record. I think if you could summarize in an extemporaneous manner, it would be a more helpful means of delivery.

Mr. **KELLEY**. OK. This will be submitted for the record?

Senator **WARNER**. Yes.

Mr. **KELLEY**. On the summary of findings, first of all, on part I, which was submitted to the House, it's important to understand that our study is not a forecast on U.S. coal imports in 1990. It is a competitive analysis which derives the potential volume of coal imports using assumptions that transpose 1983 utility market conditions to 1990.

Since it is very unlikely that market conditions will remain static, the results must be used with caution. Our assumptions do not take into account any possible coal supply disruptions. Our analysis defines limits on potential imports by the utility industry on the basis that wherever foreign coals can be delivered at costs lower than domestic coal suppliers, the utility is a potential importer.

Applying this cost minimization rule to a plant-by-plant basis, we obtain these basic results. One, of all foreign coals evaluated, Australian, Canadian, Colombian, Polish, and South African, Colombian coal was found to be the most competitive.

Two, foreign coals offer the largest potential cost savings to powerplants along the gulf coast, predominantly in Texas, and to plants accessible by the inland waterways and the St. Lawrence Seaway-Great Lakes system around the southern end of Lake Michigan.

Three, under the cost minimization rule, Colombian coals would initially displace Wyoming and Montana subbituminous coals, but should import levels exceed 3 to 4 million tons they may also begin to displace production in Kentucky, West Virginia, Illinois, and Alabama.

The estimated potential for U.S. steam coal imports was calculated for two cases representing different utility coal procurement practices. Under both cases, imports are likely to account for a very small percentage of U.S. demand.

Case 1 assumes conditions comparable to the normal utility practices of looking at a new coal source, if cost savings of at least 25 cents per million Btu could be realized and limiting purchases from that source to the volume of either actual spots purchases or 10 percent of contract volume.

Under these assumptions, the study found a potential for total utility coal imports of 6.4 million short tons by 37 plants. It is important to note that 6.4 million tons represents less than 1 percent of the projected 1990 total utility consumption of 805 million short tons.

Case 2 assumes the same 25 cents per million Btu cost savings requirement but permits utilities to import up to one-third of their total fuel needs. Under these assumptions, the study found a potential for coal imports of 17.7 million tons by 31 plants, or less than 3 percent of the projected 1990 total utility consumption.

The reason that fewer plants import coal in case 2 than in case 1 is that since each importing plant can purchase more Colombian coals, the available supply becomes fully allocated, precluding those plants with no second foreign coal choice from importing coal. It's important to note that neither of these two cases are based on predatory pricing. Foreign suppliers need only to price their coal giving U.S. utilities cost savings of at least 25 cents per MBtu compared to contract or spot-delivered prices of domestic coal.

On the part II study that's presently under way, our approach will be as follows. The study approach adopted by the Department of Commerce features in-depth profiles of five foreign countries analyzed in part I. These countries have previously exported coal to the United States and have the potential to expand their foreign marketing efforts. The profiles will essentially be comparisons of U.S. and foreign costs of production—equipment, wages, fuels, et cetera, costs associated with taxes, royalties and financing and, where possible, costs of compliance for mine safety and health and environmental regulations.

The basis of these comparisons will be the minerals availability assessment procedure developed by the Bureau of Mines. As I said earlier, part II is a joint effort with the U.S. Bureau of Mines. Since the Bureau of Mines will discuss its mine evaluation system, I will only summarize the comparisions that will be the centerpiece of the Colombian study, which is obviously of interest to this committee.

Three mining cases are being evaluated: An existing multiseam moderately dipping strip mine in Colombia, which is the Exxon-Carbocol mine, with hypothetically-placed operations in both Wyoming and Montana, having the same mine plan and geological setting; No. 2, existing multi seam mountain top removal mines in eastern Kentucky and southern West Virginia, with actual or hypothetically placed surface mining operations in the northern coal zone for the Republic of Colombia, having the same mine plan and geologic setting; and, third, existing single seam underground mines in eastern Kentucky and southern West Virginia, with actual or hypothetically placed deep mining operations in the Boyaca region of Colombia, having the same mine plan and geological setting.

In summary, Mr. Chairman, whatever cost differentials this study of foreign coal industries may or may not uncover, I reiterate the administration is committed to easing or removing any burdensome government-imposed regulations which unnecessarily add to the cost of mining, transportation and selling U.S. coal at home or abroad. We believe that this policy will assist the coal industry in competing aggressively not only in the world coal markets but also in meeting the threat of potential coal imports.

To emphasize a point in our testimony, we believe that imposing a tariff or other restrictions on coal imports would be counterproductive to the coal industry in the long term by raising consumer prices of electricity and other products dependent upon electric power.

I would be pleased to answer any questions the committee may have.

[The prepared statement of Mr. Kelley follows:]

TESTIMONY ON COAL IMPORTS

MICHAEL T. KELLEY
DEPUTY ASSISTANT SECRETARY
BASIC INDUSTRIES
INTERNATIONAL TRADE ADMINISTRATION
U.S. DEPARTMENT OF COMMERCE

Before the

Senate Committee on Energy and Natural Resources

Subcommittee on Natural Resources Development and Production

June 6, 1985

Introduction

My name is Michael T. Kelley, Deputy Assistant Secretary of Commerce for Basic Industries. My particular sector contains the Office of Energy, which, since its inception as the Coal Export Staff under the Assistant Secretary for Trade Development, has been concerned with programs to promote U.S. coal exports and policies to improve U.S. coal's ability to compete in the world market. The Office of Energy has the Administration's lead role in implementing the National Coal Export Policy of July 1981.

In my remarks I will describe the current status of our study to assess the potential for increased coal imports. First I shall briefly summarize the results of Part One which was recently submitted to the House Appropriations Committee which had requested this study. Part One is an analysis of the potential for the penetration of imported coal into the U.S. utility market in 1990, and the potential impact on domestic coal production and U.S. coal exports.

Then I will discuss the status of Part Two of this study, which is a joint effort with the U.S. Bureau of Mines. The Bureau in their statement will cover in more detail their efforts and role. Part Two, the second and final part of our coal import study, examines in some detail the conditions in coal mines of those countries which have the potential to export coal to the United States. The House Appropriations Committee requested that the study include a comparison of foreign worker safety, wage rates, and environmental protection, with American regulations and standards.

COAL IMPORT STUDY: PART 1 RESULTS

The potential for increasing U.S. steam coal imports, above the historical level of one-half of one percent of total utility consumption, is the result of many factors. The principal factors are worldwide excess production capacity, increasing U.S. production and transportation costs, depressed ocean freight rates and the high value of the U.S. dollar. The cumulative effects of these and other factors combined with the current depressed FOB prices for foreign coal and low ocean shipping costs enable some foreign coals to be competitive in price with some domestic coal purchased by some U.S. utilities.

Part One of our study, conducted by the Office of Energy, limited its analysis to the U.S. utility market, which uses over 80 percent of steam coal consumed in the United States. We analyzed 325 coal-fired plants operated by 133 utilities east of the Mississippi River, and selected plants in Texas, Arkansas, Kansas, Missouri, Nebraska, Iowa, and Minnesota. We compared the quality and price of 1983 coal receipts to foreign coals assumed available in 1990. The study assumes that the relative delivered price differentials between U.S. and foreign coals would be the same in 1990 as in 1983.

The potential impact on domestic production was assumed to be directly proportional to the amount of foreign coal displacing U.S. coal receipts at the importing utility plant.

Study Findings

It is important to understand that our study is not a forecast of U.S. coal imports in 1990. It is a competitive analysis which derives the potential volume of coal imports using assumptions that transpose 1983 utility market conditions to 1990. Since it is very unlikely that market conditions will remain static, the results must be used with caution. Our assumptions do not take into account any possible coal supply disruptions. Our analysis defines limits on potential imports by the utility industry on the basis that, wherever foreign coals can be delivered at costs lower than domestic coal suppliers, the utility is a potential importer. Applying this cost-minimization rule on a plant by plant basis we obtained these basic results:

- Of all foreign coals evaluated (Australian, Canadian, Colombian, Polish, and South African), Colombian coal was found to be most competitive.
- Foreign coals offer the largest potential cost savings to power plants along the Gulf Coast (predominantly in Texas), and to plants accessible by the inland waterway and the St. Lawrence Seaway/Great Lakes systems (around the southern end of Lake Michigan).
- Under the cost-minimizing rule, Colombian coals could initially displace Wyoming and Montana subbituminous coals, but should import levels exceed three to four million tons, they may also begin to displace production in Kentucky, West Virginia, Illinois, and Alabama.

The estimated potential for U.S. steam coal imports was calculated for two cases representing different utility coal procurement practices. Under both cases imports are likely to account for a very small percentage of total U.S. demand.

- Case One assumes conditions comparable to the normal utility practice of looking at a new coal source if cost-savings of at least 25 cents per million Btu (¢/MMBtu) could be realized, and limiting purchases from that source to the volume of either actual spot purchases or ten percent of contract volume. Under these assumptions, the study found a potential for total utility coal imports of 6.4 million short tons by 37 plants. It is important to note that 6.4 million tons represent less than one percent of the projected 1990 total utility consumption of 805 million short tons.

- Case Two assumes the same 25¢/MMBtu cost-savings requirement, but permits utilities to import up to one-third of their total fuel needs. Under these assumptions, the study found a potential for coal imports of 17.7 million tons by 31 plants or less than three percent of the projected 1990 total utility consumption. The reason that fewer plants import coal in Case two than in Case one is that as each importing plant can purchase move Colombian coals, the available supply becomes fully allocated precluding those plants with no second foreign coal choice from importing coal.

It is important to note that neither of the two cases are based on predatory pricing. Foreign suppliers need only to price their coal giving U.S. utilities cost-savings of at least 25¢/MMBtu compared to contract or spot delivered prices for domestic coal.

As mentioned earlier, the current competitiveness of foreign coal in the United States is largely the result of depressed world coal prices and ocean freight rates. The strength of the dollar is also a factor. Any improvement in these three areas or concurrent reductions in domestic-coal production and transportation costs could substantially lower potential coal imports. Also, decisions by utilities, whether or not to import coal, will be influenced by a wide variety of factors discussed in our report including the reliability of foreign coal supplies. In the interest of saving time, I will not discuss these here, but move on to briefly describe the current status of Part Two of our coal import study.

PART II: Study Approach

The study approach adopted by the Department of Commerce features in-depth profiles of the five foreign countries analyzed in Part One. These countries have previously exported coal to the United States and have the potential to expand their marketing efforts. The profiles will essentially be comparisons of U.S. and foreign costs of production (equipment, wages, fuels, etc.), costs associated with taxes, royalties, and financing, and, where possible, costs of compliance for mine safety and health, and enviornmental regulations. The bases for these comparisons will be the "Minerals Availability Assessment Procedure" developed by the Bureau of Mines. As I said earlier, Part Two is a joint effort with the U.S. Bureau of Mines.

As you may imagine, the definition and review of mining costs alone is a difficult analytical process. As will be noted in subsequent testimony by the Bureau of Mines, Mr. Chairman, costs differ based on type of mine (surface vs. underground); and type of mining plan (dragline vs. truck-shovel; longwall vs. continous miners). The actual comparison of U.S. and foreign mine safety and health regulations and environmental standards, especially when there is intra-industry disagreement over what constitutes de minimis or "good mining practices," is very subjective.

Current Status

A Memorandum of Understanding was signed with the Bureau of Mines and a work program agreed upon in which we would complete the analysis of the Colombian coal industry before studying the other four countries. It is our understanding that this is the first application of the Bureau's unique "Minerals Availability System" to coal and both agencies felt that we should concentrate on one country and work out the detailed process before tackling the other countries. As we are finding out, this decision was a wise one because it is very difficult and time consuming to obtain accurate information. We are making good progress, but not even preliminary findings are available at this time as we are awaiting some critical information from Colombia regarding taxes and royalties. Also, the data collection on the U.S. reference mines have not been completed.

Since the Bureau of Mines will discuss its mine evaluation system, I will only summarize the comparisons that will be the centerpiece of the Colombian study. Three mining cases are being evaluated:

- an existing multi-seam, moderately dipping, strip mine in Colombia (Exxon,/CARBOCOL "El Cerrejon North" mine) with hypothetically-placed operations in both Wyoming and Montana, having the same mine plan and geological setting;
- existing multi-seam, mountain-top-removal mines in eastern Kentucky and southern West Virginia with actual and/or hypothetically-placed surface-mining operations in the "Northern Coal Zone" of the Republic of Colombia, having the same mine plan and geological setting;
- existing single-seam, underground mines in eastern Kentucky and southern West Virginia with actual and/or hypothetically-placed deep-mining operations in the Boyaca region of Colombia, having the same mine plan and geological setting.

U.S. Coal Exports

At this point, Mr. Chairman, I would like to note the Department's hope that the discussion of U.S. coal imports will not overshadow the Administration's continuing efforts through reliance on the markets to encourage domestic producers to maintain and increase the U.S. share of the international metallurgical and steam coal markets. The Department of Commerce remains committed to the aggressive implementation of the National Coal Export Policy of July 18, 1981, which stated the Administration would work vigorously to ease or remove government imposed regulatory and administrative barriers to increased U.S. coal exports.

The Administration recognizes that the U.S. coal industry is besieged by a variety of structural and external problems, at home and abroad, which impede its competitiveness in the world coal market. There is no insularity for U.S. coal's domestic markets from the competitiveness of world coal prices.

U.S. Coal Imports

The Administration opposes restrictions on coal imports for a number of reasons. First, the Administration continues to support a policy of relying on the market for reasonable energy prices as the best policy for assuring adequate supplies of economically priced energy fuels. Second, any duty assessed on imported coal or any other assessment which was not applied equally on domestic coal would violate our GATT obligations.

Furthermore, a tariff is not the answer to improving the competitiveness of U.S. coal in either the domestic or international markets. It will only encourage a less competitive and inefficient domestic industry that will result in higher prices to the ultimate consumer. Finally, other countries could use the U.S. precedent of a tariff to erect their own protectionist barriers.

In the face of this challenge from foreign coal to both our domestic and international markets, the Administration applauds U.S. coal industry management and labor efforts to increase productivity to remain competitive in the international coal market. The rationalization of industry wage structures, combined with high quality coal reserves, advancements in technology and the application of that technology to underground and surface mining machinery, is the way to keep U.S. coal prices competitive both at home and abroad.

We also note that there are remedies available under existing U.S. trade laws to any U.S. coal producer or group of producers which believe themselves to be injured by increased coal imports. Unfair trade practices, such as dumping, or domestic or export subsidies in the country of origin, can be remedied under our anti-dumping and countervailing duty laws. Section 201 of the 1974 Trade Act offers administrative relief where rising imports injure, or threaten to injure, a domestic industry.

Summary

In summary Mr. Chairman, whatever cost differentials this study of foreign coal industries may or may not uncover I reiterate that the Administration is committed to easing or removing any burdensome government imposed regulations which unnecessarily add to the cost of mining, transporting, and selling U.S. coal at home or abroad. We believe that this policy will assist the coal industry in competing aggressively not only in the world coal markets, but also in meeting the threat of potential foreign coal imports. To emphasize the point I made earlier, we believe that imposing a tariff or other restrictions on coal imports would be counterproductive to the coal industry in the long term by raising consumer prices of electricity and other products dependent upon electric power.

I would be pleased to answer any questions which you and your Committee may have.

Thank you.

The CHAIRMAN [Senator McClure presiding]. Thank you very much.

Dr. Enzer, your entire statement will be placed in the record in full. You're invited to summarize, if you will.

STATEMENT OF DR. HERMANN ENZER, ASSISTANT DIRECTOR, MINERAL DATA ANALYSIS, BUREAU OF MINES, DEPARTMENT OF THE INTERIOR

Dr. ENZER. Thank you, Mr. Chairman, members of the committee.

As Mr. Kelley said, basically what we are about to do is to make the mine mouth-to-mine mouth comparison that Senator Johnston asked earlier about. I am pleased to be here. You may not be quite as pleased because we are not ready yet to have answers to some of the substantive questions that you may have.

When we started with this work, we were unable to get all the information on Colombian tax obligations, and this is a very important factor that we need to look at. We are trying to get that information through various sources. We have asked our Embassy in Bogota and other organizations in Colombia, and we are reasonably sure at this time that we will get the information that we need to have. This information is particularly important in comparing Colombian coal with coal from some of the western States, as you can well appreciate.

So, to summarize, the work that we are doing is mine mouth-to-mine mouth comparisons. Somewhat more detailed: Part of our work in the Bureau of Mines is to develop engineering feasibility analyses of individual mining operations. Essentially, that means estimating the cost of the various inputs and process elements at a mine to determine the minimum price that is required for profitable production.

We have systematically applied that approach to estimate the availability of the largest 2,400 deposits for the most important nonfuel minerals in the free world. Because of that capability, the Office of Energy in the Department of Commerce asked that we work with them on comparing costs, including regulatory costs, at domestic and foreign coal mines as part of a study for the House Appropriations Committee.

Colombian coal mines, particularly the large export-oriented El Cerrejon Norte mine, were the first ones chosen for comparison. As Mr. Kelley described, we are using this mine and comparing it with a hypothetical mine in Wyoming and Montana for the very good reason that we do not have an actual mine in the United States that comes even close to that particular mine in Colombia. We think that the comparison will still be quite relevant, even though it is a hypothetical situation.

We also have been asked to compare Appalachian coal-mining costs with those in Colombia, and to do that our engineers have visited a surface and an underground coal mine in West Virginia and a coal company in eastern Kentucky, and have obtained or have been promised the data necessary for evaluation of mine costs. We also have asked a consulting firm with contacts in Colombia to provide us with equivalent data on operating Colombian coal mines.

As soon as all this data is assembled, evaluated, and analyzed, we will issue jointly with the Department of Commerce a report that separates, quantifies, and compares, to the extent possible, health, safety, and environmental costs. Senator Byrd mentioned earlier that there is a presumption that foreign environmental costs and foreign health and safety costs are lower than ours. Well, we want to find out specifically what the facts are in this study so that you and we have something to look at and have actual dollar figures.

We also want to look at relative labor costs and, as you all know, you can't just compare labor costs in the United States and labor costs in Colombia. You have to compare them in terms of productivity. So we are trying to do that.

And the most difficult thing, as you can well imagine, is to make the tax comparisons between various countries. Particularly if the tax comparison is not only between mines but between corporate units. You can appreciate that this is difficult to do when there is Exxon and the Government of Colombia.

In summary, when we are through we will have component-by-component comparisons between mines in Colombia and mines in the United States; and after we have completed this particular study, we will work with the Department of Commerce and do similar work on major mines in South Africa, Australia, Canada, and perhaps even Poland.

Thank you very much, Mr. Chairman.

[The prepared statement of Dr. Enzer follows:]

Testimony of Dr. Hermann Enzer
Assistant Director--Mineral Data Analysis
Bureau of Mines
Department of the Interior
Before the
Senate Committee on Energy and Natural Resources
Subcommittee on Natural Resources Development and Production

June 6, 1985

My name is Hermann Enzer, Assistant Director--Mineral Data Analysis, a part of the Bureau of Mines concerned with the technical and economic analysis of worldwide demand and supply of minerals. We perform analysis on important minerals issues such as the impact on the U.S. economy of increasing competition by foreign producers of raw and processed minerals. A principal goal of the Bureau of Mines is to provide technical and economic assistance to the design of policies which have as their objective an adequate and dependable supply of minerals to the United States with efficient contribution from domestic sources. To accomplish this, we collect, analyze, and publish mineral information and statistics on a worldwide basis to promptly identify causes and effects of changes in mineral supply and demand.

The Department of the Interior, through the Bureau of Mines, is responsible for research and development on coal mine production, health and safety, and environment. The Bureau also gathers and publishes international fuel data and assists in coal leasing and royalty problems encountered by BIA, Indian tribes, BLM, and by other agencies as requested.

I want to briefly cover three topics relative to our current efforts to compare coal mining conditions and costs in Colombia with those in the U.S. First, I will generally describe the process we use in analyzing a mineral deposit in the context of assessing the world supply of that mineral. Second, I would like to characterize mine specific cost comparisons and indicate some of the problems one encounters. Third, I am going to summarize our progress to date on the Colombian coal costing study, and indicate what we hope to achieve.

Assessment Process

The function of the Minerals Availability Program of the Bureau is to assess the availability of the most important nonfuel mineral commodities worldwide by systematic analysis of the location and quantity of resources, of applicable technologies for recovery, and of the costs associated with production. These site-specific engineering and economic evaluations provide a quantitative basis for the comparison of both domestic and foreign mining and processing operations. Studies concerned with mineral stockpile assessments, minerals exploration, extraction technology, tax restructuring, substitute materials, land utilization, and regulatory impact have benefited from this quantification effort.

The minerals availability assessment procedure of the Bureau involves the following activities for each selected commodity. All known deposits are identified and the largest, accounting for at least 85 percent of cumulative free world production of the particular commodity, are included in the analysis. For these deposits, a geologic assessment is made to establish the quality and quantity of the contained resource, followed by an engineering analysis to define the production technologies, required equipment and cost, and a financial analysis to incorporate rate-of-return investment assumptions, taxes, depletion allowance, and depreciation. The individual deposit evaluation and financial analysis is a feasibility-type study determining a particular deposit's relative degree of profitability.

This site-specific information is used to rank individual mines in price-tonnage terms and to aggregate these price-tonnage determinations on a regional, country, continent, and worldwide basis. To measure the significance of selected factors on the cost of production and resource availability, some of the factors such as energy costs, wages, tax structures, transportation, and loan terms are varied. The resulting alternative price-tonnage profiles identify the factor variations to which minerals availabilities are particularly sensitive.

Up to now about 2400 of the market economy countries' largest deposits for the most important 34 nonfuel minerals have been evaluated for their availability. I believe I can say that the Bureau is recognized as a unique source of information on minerals availability worldwide.

Mine Cost Comparisons

The International Trade Administration's (ITA) Office of Energy in the Department of Commerce in January, asked the Bureau of Mines to determine site-specific capital and operating costs for mining and preparation of coal for selected mines first in Colombia and later in other major coal exporting countries and to compare them with equivalent costs of selected coal mines in the U.S. The purpose of the comparison is to analyze the impact of regulations, taxes, and technology changes on these costs, with enough detail to isolate health and safety, environmental, and labor cost differences between the respective mines.

For each mine evaluated, the general approach in developing the estimates of cost components is the same. Physical information on such categories as mine geology, skill levels and distribution of manpower, and equipment utilization and replacement schedules, as well as first-hand estimates of the mine layout, operational and safety procedures are gathered, preferably through on-site visitation. Using that information an efficient mine plan is developed detailing inputs, outputs, and productivity for the mine for each year it is expected to operate. Next, legal and economic parameter values for wages and prices, tax obligations, and regulatory requirements that apply in the region containing the deposits are collected from sources such as unions, equipment dealers, and local authorities. Individual cost items and cash flows are then calculated and discounted for each operation to determine the average price necessary to yield a specified rate of return over the projected economic life of the mine. Specific items responsible for differences in these incentive prices can thus be identified.

Comparison of specific cost items at different mines is complicated by the differences in conditions between different locations. Differences in deposit geology will dictate different mining plans. Even with virtually identical geology, the differences in available labor skills and equipment, in geography and climate, and in legal and cultural conditions usually require the adoption of different mining techniques and production scales. For instance, front-end loaders and smaller (50 ton capacity) trucks may be selected over an electric shovel and 150 ton truck operation when local conditions limit energy sources and/or favor maximizing employment. When deposits are mined differently, individual cost elements will vary even though aggregate, delivered costs are usually similar as a result of competition. Continuing the above example, higher labor costs caused by safety requirements in a given mine in one country may be offset by higher equipment, land acquisition, or transport costs at an equivalent deposit in another country.

Analysis comparing separate mines in different countries is further complicated by constraints to accessible information and to available level of effort. Detailed data on specific sites are often proprietary and thus require voluntary cooperation from owners if reliable estimates are to be obtained. A variety of special and sometimes obscure taxes tend to be imposed on natural resource deposits by different local and national governments.

In view of these difficulties, the only realistic approach to international cost comparisons is engineering evaluations that break out as much operational detail as possible.

The Coal Cost Analysis

The first step in carrying out the coal mine analysis and comparison requested by the ITA Office of Energy was to find a domestic mine whose costs could be directly compared with those of the new El Cerrejon Norte surface mine, which is being developed in northern Colombia. However, because of the unique geology and scale of the El Cerrejon mine, no comparable domestic mine could be identified. We proceeded to identify the cost of the various activities at El Cerrejon in order to compare them to costs for the same activities at a hypothetically equivalent, multiseam mine located in the U.S.

Comparison of an actual foreign mine to a hypothetical domestic mine was deemed appropriate in light of the following trade-offs. Creating a U.S. equivalent to the El Cerrejon deposit in the U.S. allows us to suppress the differences in geology, while focusing on the differences in factor prices, productivity, taxes, and regulatory environment. However, the U.S. mine in this approach is not an actual operation and thus may not reflect all the conditions faced by any specific domestic producer. We felt justified in using this approach primarily because the El Cerrejon Norte deposit is not yet an established producer, so data on its operation can be viewed as based on plans rather than practice. Not until the end of the decade is it expected to operate at its design capacity, and it may take a few additional years until accurate information on its actual operating costs will be available.

A western U.S. location was selected as the site for the hypothetical equivalent of this Colombian mine for three reasons. An actual surface coal mining operation located in Wyoming was the closest domestic approximation to the El Cerrejon Norte because it employs a similar mining plan, though on a smaller scale (1/5) at a multiseam deposit. Its management was also willing to cooperate with our study. In addition, Part I of the coal import study determined that Montana and Wyoming could be the coal producing states most affected by Colombian imports. Since taxes vary among states, both Montana and Wyoming are being used as sites for the hypothetical El Cerrejon equivalent.

It was not possible for us to arrange an actual visit to the El Cerrejon Norte mine, so capital, operating, and regulatory costs are being developed utilizing information provided by a number of sources including the U.S. based operating partner (Intercor, a subsidiary of Exxon) and the U.S. development contractor (Morrison Knudsen).

In our initial analysis, we were unable to obtain complete information on Colombian tax obligations. Such information is obviously vital to developing a complete cost comparison, and we have requested it from several sources including the U.S. embassy in Bogata. We hope to have such information soon, and will refine and expand our initial comparison of U.S./Colombian mine costs as soon as we do. Also, we are modifying our El Cerrejon cost estimates to deal with taxes from the perspective of a corporation rather than of an independent entity and to attempt to compare it with an actual western U.S. operation.

Discussions with Congressional staff indicated that a comparison of western U.S. coal mining with Colombian coal mining was not sufficient but that comparisons between actual operations in Colombia and actual operations in the eastern U.S should also be made. We have discovered that, just as in the case with a El Cerrejon/western U.S. comparison, differences in scales may make direct comparisons between existing underground mines in the two countries and between existing surface mines in the two countries unrealistic. We have agreed with ITA's Office of Energy to make every effort to formulate reasonable cost comparisons between actual mines despite these differences. If results of that attempt prove questionable, we also intend to compare typical eastern U.S. coal operations with the same type and scale of operations hypothetically located in Colombia.

In early May, we visited several mines and mining offices in West Virginia and Kentucky to gather data on: (1) a large (1.2 million tons annually), underground mine, working 4 sections of a 6 foot seam with continuous miner and longwall equipment and about 500 employees spread over three shifts; (2) a medium size (1 million tons annually), strip or surface mine, working five seams totaling about 20 feet of coal with trucks and shovels and about 100 employees; and (3) a group of surface and underground operations together producing about 5.5 million tons of coal with 1400 employees. Additional Colombian mines, selected as roughly equivalent in size and type to the eastern U.S. mines, were visited by a Bureau contractor, active in Colombian coal marketing and development studies, in late May. The analysis comparing the cost components of the like operations found in each country will be completed as soon as all required information is either made available or developed. These evaluations together with the revised El Cerrejon comparison are intended to form a major part of the study comparing costs and conditions in the U.S. and Colombian coal industries.

The Bureau has agreed to perform such analysis on other major coal deposits worldwide and has signed a Memorandum of Understanding with the Department of Commerce to that effect. Because coal is not one of the commodities for which we have systematically collected minerals availability information, we propose to add coal to our system and collect site-specific engineering information on the largest and most important coal mines over the next two years. We will coordinate with the EIA to ensure no duplication of effort. This effort will enable us to perform these analyses in an orderly manner rather than on an ad hoc basis.

Summary

To briefly summarize, the analysis now in progress in the Bureau will measure the costs associated with various components, such as labor, capital, and taxes, for specific coal mining operations in the U.S. and in Colombia. That information will permit us to determine the relative significance of these major cost components and, to the extent possible, to isolate the costs of those activities devoted to health, safety, and environmental protection in mines in each country.

The CHAIRMAN. Thank you very much.

I understand Senator Warner had indicated we would try to comply with the 5-minute limit on the first round. I have only one question.

Dr. Enzer, do you have any idea when you will be able to complete that study and analysis?

Dr. ENZER. Depending on when we get the information from our domestic mines, Senator McClure, probably in 2 to 3 months.

The CHAIRMAN. Two to three months after you get the information?

Dr. ENZER. After we get the information, yes.

The CHAIRMAN. When do you expect to get the information?

Dr. ENZER. We hope to get most of it within 4 to 6 weeks.

Mr. KELLEY. Mr. Chairman, seeing as we have the lead on the study, we would like to have it out by the end of the summer.

The CHAIRMAN. By the end of the summer?

Mr. KELLEY. By the end of the summer, yes, sir.

The CHAIRMAN. Senator Johnston.

Mr. KELLEY. That's not on the other four countries. That's just specifically Colombia.

Senator JOHNSTON. Mr. Kelley, on the first page of your statement you identify the problem of imports and the problems of domestic industry as being worldwide excess production capacity, increased U.S. production, transportation costs, depressed ocean freight rates, and the high value of the U.S. dollar.

Have you identified transportation costs domestically as being part of our problem?

Mr. KELLEY. Senator, I know where you're going and I'm not going there.

Senator JOHNSTON. I just read from your statement.

Mr. KELLEY. As far as transportation cost, I have the basic industries under me, plus the energy. I have the steel industry, I have the chemical industry, and I have the wood products industry, so obviously transportation is a very important factor to those industries. You can't deny that.

I have not seen the Department of Energy study, so I can't really comment on those particular areas. We, the Department of Commerce, did support with the State Department a case in the U.S. courts concerning the exemption of export rail rates under the Staggers Rail Act, and the appeals court upheld our position.

Senator JOHNSTON. Mr. Kelley, my question was very simple. I just read you your statement and I asked you if it was correct. And you said you know where I'm going and you're not going there.

Mr. KELLEY. I said you can't deny transportation costs are a factor.

Senator JOHNSTON. Well, that's all I asked you.

Mr. KELLEY. OK. Just as long as I make clear I'm not commenting on the Energy report.

Senator JOHNSTON. All right. Now are you familiar with the Staggers Rail Act and its formulation?

Mr. KELLEY. Senator, I'm very familiar with it. As you well know, I was out in private industry when the Staggers Rail Act passed. I was working for an issue that's very near and dear to your heart and still strongly believe in that issue of slurry pipelines, believing that, at that time, when you had slurry pipeline legislation and you put a competitive factor in that it would obviously help in any type of pricing mechanism. I still firmly believe that that's the case, that the more competition you have, the better off you are.

Senator JOHNSTON. Wait a minute. I don't want to stray from the point. It's my question. Your answers are good, but let me ask my questions. [Laughter.]

In 1980, Mr. Kelley, the railroad industry earned $1.2 billion. At that time, only seven individual railroads were declared revenue inadequate. By 1984, 3 years under the Staggers Rail Act, the amount of revenue to the railroads had almost tripled. Yet, according to the methodology under the Staggers Rail Act all railroads were declared to be "revenue inadequate."

In the face of that, Pepco did an analysis using that same methodology and applied it to their business. They found that using that methodology, they would have had to receive a 32-percent return on their rate base investment instead of the present 11 percent in order to be determined revenue adequate. This would mean a 109-percent electric rate increase in 1983 to achieve the same revenue adequacy under the ICC methodology.

Pepco also looked at some railroads, including Norfolk Southern, a great railroad determined to be revenue inadequate. Yet in 1980 it acquired coal reserves for $40 million in cash; in 1981 through 1985 it acquired an 18-percent interest in Piedmont Airlines at $67 million; 1984, a $12 million stock investment to control 30 percent of Microtel; 1984, $75 million investment in Southeast Banking Corp. And here's a proposed offer of $1.2 billion for Conrail; in 1985, the purchase of North American Van Lines. Acquisitions since 1980 by Norfolk Southern total $1.899 billion.

Yet they're supposed to be revenue inadequate according to the ICC. I could go into similar detail about Burlington Northern, CSX and Union Pacific, but I have made my point. Isn't there something basically wrong with the ICC methodology if it declares these megaprofit corporations as being revenue inadequate? Mr. Kelley, would you agree that this is part of the problem?

Mr. KELLEY. That may be a problem, but that should be a question addressed to the ICC because we don't really have any input into that.

Senator JOHNSTON. I know it's not your responsibility but are you familiar with their methodology?

Mr. KELLEY. Yes; I'm familiar with that, yes, sir, and I think basically they feel they are complying to the statute as passed by Congress.

Senator JOHNSTON. And, therefore, Congress should probably change the law, don't you think?

Mr. KELLEY. That's Congress' wisdom. I can't comment on that particular——

Senator JOHNSTON. I understand your delicate position, Mr. Kelley, and I don't want you to get into any trouble. However, the fact of the matter is that transportation is a great problem for domestic railroads and it is because of the Staggers Rail Act, either as interpreted or as required to be interpreted under the law. Isn't that a fair statement?

Mr. KELLEY. I think you could say that about any program that you have where there's a Federal statute. I see this in the sugar program. There's a Federal statute. That doesn't necessarily mean it's right, but there's a Federal statute, so we as the people in the Government have to comply with those statutes.

Senator JOHNSTON. I know you have to comply, but I am asking you whether that is the problem.

Mr. KELLEY. Is the transportation or the way they interpret it a problem?

Senator JOHNSTON. Transportation costs.

Mr. KELLEY. All I can comment is where Commerce came out, and that was on the export provisions of the Staggers Rail Act, and our position was upheld in court.

Senator JOHNSTON. That's not what I asked you.

Mr. KELLEY. That's all I can comment on because I haven't seen the other area.

Senator JOHNSTON. You don't have any opinion about these things?

Mr. KELLEY. I have opinions that transportation is a factor within the cost of delivering goods.

Senator JOHNSTON. I can see you don't want to answer these questions, and I don't have time to pursue it. But it seems to me just as plain as the noonday sun on a cloudless day what the problem is, and nobody wants to say it. Either you can't see the facts, or you don't want to comment on it. It's amazing to me. President Carter said in the national energy plan I way back in 1975 that the United States would consume 1.2 billion tons of domestic coal by, 1990, or was it 1985?

Mr. KELLEY. 1985, I believe.

Senator JOHNSTON. 1985, and now the projected consumption goal is only 801 million by 1990.

Mr. KELLEY. They're predicting 950 million; 805 million was utility use. As you saw in my statement, that's just strictly utility use; 950 million would be total United States.

Senator JOHNSTON. Well, in any event, isn't it about 800 million tons of coal currently?

Mr. KELLEY. It's about 860 million, I believe.

Senator JOHNSTON. OK. But the point is we're missing the goal by a long shot.

Mr. KELLEY. The Senator knows full well these long-range projections that we made in the 1970's and early 1980's under a lot of those type of predictions, both in the oil and gas and coal and the other areas, they didn't really pan out. The long-range predictions are awful hard to live with.

Senator JOHNSTON. They are especially hard to meet in light of the Staggers Rail Act.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Rockefeller.

Senator ROCKEFELLER. Mr. Chairman, I have four questions for Mr. Kelley and two for Dr. Enzer, and I will submit those in writing in the interest of saving time.

The CHAIRMAN. Very good. I thank the Senator. Other members of the committee may also have some written questions for submission for response to the record. We would appreciate those responses as rapidly as possible.

Thank you very much.

Mr. KELLEY. Thank you, Mr. Chairman.

The CHAIRMAN. We will next hear from a panel. Mr. Richard Trumka, president, United Mine Workers of America; Mr. Daniel Gerkin, president, Mining and Reclamation Council of America; Mr. A. Denny Ellerman, executive vice president of the National Coal Association.

Gentlemen, if you would come forward and take your places, please. Gentlemen, in turn each of your statements will be made a part of the record in full and in the interest of time and trying to expedite the hearing, I would invite you to summarize. Hit the high points for the record.

Mr. Trumka.

STATEMENT OF RICHARD L. TRUMKA, PRESIDENT, UNITED MINE WORKERS OF AMERICA

Mr. TRUMKA. Thank you, Senator, and thank you, Mr. Chairman and members of the committee. On behalf of the members of the United Mine Workers, especially those who are currently without jobs and those whose jobs are threatened by unfair competition from abroad, I want to thank you for holding this hearing today and asking for the views of the American coal miners.

I, like, I believe, a growing number of Americans are becoming increasingly concerned with the espoused philosophy of some of the multinational corporations that we see. Some of the largest corporations have noted they owe no loyalty to this country, that in fact multinational corporations would be acting improperly if in fact they showed a greater allegiance to any country over another. That's been said by the chairman of Dow, the chairman of Union Carbide, and various others.

We see that philosophy right now coming home to roost. We see Americans sending our capital and our technology abroad and in turn we see unemployment being imported into this country. We see us now for the first time starting to import coal at a slow rate, but an increasing rate; the estimates are anywhere between 8.8 million and 17.5 million tons in the very near future.

That, I believe, flies directly in the face of the espoused energy policy of this country. We have said and adopted a policy of energy independence. I believe that in the best interest of this country. For us to become reliant upon foreign energy sources, be they small amounts of coal at first and increasing later, I think that endangers and lessens our national security.

We have been in fact out front, saying that I believe American corporations owe an allegiance to America first and to a bottom line second. And the question ultimately should be should national security be left to the workings of the free market when a free market exists in only probably one place, and that's the United States.

We see the coal coming into this country being produced under adverse conditions, in South Africa, with slave labor, in Colombia, where their labor laws and environmental laws are grossly below ours, and see, as noted earlier, the Import-Export Bank subsidizing that. West Virginians, Kentuckians, Virginians, Americans across the country are subsidizing that project down there.

If the committee would care, I could give greater detail on the El Cerrejon project and conclude with my summary of that project. The Cerrejon region of Colombia contains about 90 percent of the country's proven coal reserves. It's situated on a dry and sparsely populated peninsula in the northeast corner of Colombia, adjacent to the Caribbean Sea.

The Government of Colombia 10 years ago solicited bids from international energy firms to develop coal reserves in the Cerrejon region. The successful bidder was International Colombia Resources Corp., Intercor, a subsidiary of Exxon Corp. Intercor signed a joint development agreement in 1976 with Carbocol, a company formed and owned by the Colombian Government.

Under the terms of the agreement, Carbocol will retain title to the coal reserves and Intercor will operate the mine. Capital investments are to be shared equally between the parties, as is the eventual output of the mine. Each partner will be responsible for marketing its own share of production. Current plans call for all production from the mine to be exported, the first step in the country's aggressive energy plan.

Colombia's national energy plan, adopted in 1982, calls for the capture of 10 percent of the world coal export market by the year 2000. By that time, Colombia expects to export 55 million metric tons of coal per year. The Cerrejon mine has an abundance of reserves, with estimates ranging as high as 3 billion metric tons. More important, 1.8 billion tons are estimated to lie within 200 feet of the surface, unlike this country, whose reserves are getting deeper and deeper all the time.

Senator WARNER [presiding]. Mr. Trumka, earlier on, when I first opened up the hearing, I made a comment about the depth of the coal deposits in Colombia and I noticed you shook your head in a manner that I wasn't sure whether you agree or disagreed with what I had said.

Mr. TRUMKA. I believe that I was agreeing with your comments, that the depths of mines of the foreign coal is generally less in depth, so there's less overburn and cheaper mining. In this country the minable reserves are getting deeper. The amount of coal that we have near the surface is becoming less and less, particularly in the inner basin.

Senator **Warner**. So we're in agreement on that point.

Mr. **Trumka**. Yes, sir.

Production from the Cerrejon mine is expected to exceed 2 million metric tons in 1985, with significant increases thereafter. The current schedule is 7 million tons in 1986; 9 million tons in 1987; 12 million tons in 1988; and full production of about 15 million tons per year by 1989. If market conditions warrant, however, the production level could be greatly expanded, possibly to a level as high as 25 million metric tons.

This is an interesting point, I believe, and it ties in to your question earlier, Senator, about the aid that they've been given. Since the mine's located in an isolated and sparsely populated area, a great deal of capital investment in infrastructure was required to bring the mine into development.

As an example, the companies had to build a port, dredge a harbor to allow large oceangoing colliers and gulf barges access to the mine. Since the mine is 90 to 100 miles from the port, two parallel roads had to be constructed, a gravel road to accommodate supply trucks, and a railroad to haul coal. In addition, two airports were built at one port and one at the mine. Finally, the companies had to construct an entire community from scratch in order to house the workers.

The capital cost of the mine and related facilities is said to be about $3 billion, which will be shared equally by Colombia and Exxon, or roughly $1.5 billion from the Government of Colombia.

Senator **Warner**. Would you go back over that whole statement again? I missed part of it. Repeat that entire statement again, your last point. I missed it.

Mr. **Trumka**. Yes, sir. Since the mine is located in an isolated and sparsely populated area, a great deal of capital investment in infrastructure was required to bring the mine into development.

As an example, the companies had to build a port and dredge the harbor to allow large oceangoing colliers and gulf barges access to the mine. Since the mine is 90 to 100 miles from the port, two parallel roads had to be constructed, a gravel road to accommodate supply trucks, and a railroad to haul coal. In addition, two airports were built, one at the port and one at the mine. Finally, the company has had to construct an entire community from scratch in order to house the workers.

The capital cost of the mine and related facilities is said to be about $3 billion, which will be shared equally by Colombia and Exxon.

At a time when our own coal industry has the ability to produce 100 to 200 million tons more than we consume, this seems a very strange way for an American company to spend money. Perhaps even stranger is the fact that was noted earlier, that American taxpayers are also footing part of that bill. The Import-Export Bank has authorized direct loans as of January this year, I believe, of $487.5 million in the Cerrejon project, and an additional $65 million for private credit.

I am greatly disturbed that American taxpayers are subsidizing a project that will result in the loss of American jobs, particularly when we have an overcapacity of coal production facilities and mines in this country. I believe that this bill and a companion bill, H.R. 1905, in the House side, which we strongly support, would put the American industry, coal industry, on an equal footing.

It would allow us, if you will, to play on an even playing field. It would reduce the differential, if you will, from the cost that American corporations have to pump into health and safety, have to pump into things such as black lung, have to pump into mine reclamation. Those costs are significant.

We should be able to play on an equal footing. And I would reiterate one additional time, Senator, that the question of national security, and I believe that's what we're talking about here is our national security, and whether this country wants to little by little become more and more dependent upon foreign energy sources or whether we're going to give more than lipservice to the notion of energy independence and stand up, that's the question here.

And I believe this bill, the bill in the Senate, as well as H.R. 1905, address that in a positive fashion and are good for the country.

I thank you, sir.

[The prepared statement of Mr. Trumka follows:]

STATEMENT OF RICHARD L. TRUMKA
PRESIDENT
UNITED MINE WORKERS OF AMERICA

BEFORE THE
SUBCOMMITTEE ON NATURAL RESOURCES DEVELOPMENT AND PRODUCTION
COMMITTEE ON ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE

ON
THE IMPACT OF COAL IMPORTS
ON THE DOMESTIC COAL INDUSTRY

June 6, 1985

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I AM RICHARD TRUMKA, PRESIDENT OF THE UNITED MINE WORKERS OF AMERICA. ON BEHALF OF THE MEMBERS OF THE UMWA, ESPECIALLY THOSE WHO ARE CURRENTLY WITHOUT JOBS AND THOSE WHOSE JOBS ARE THREATENED BY UNFAIR COMPETITION FROM ABROAD, I WANT TO THANK YOU FOR HOLDING THIS HEARING TODAY AND ASKING FOR THE VIEWS OF AMERICA'S COAL MINERS.

IF I MAY, MR. CHAIRMAN, I WOULD LIKE TO BEGIN BY PROVIDING SOME BACKGROUND ON THE UNION AND THE PEOPLE THAT I REPRESENT. THE UNITED MINE WORKERS OF AMERICA IS COMPOSED OF APPROXIMATELY ONE QUARTER OF A MILLION WORKING, RETIRED AND UNEMPLOYED COAL MINERS AND RELATED WORKERS THROUGHOUT THE UNITED STATES AND CANADA. RELATIVE TO SOME OTHER LABOR UNIONS THE UMWA IS SMALL IN NUMBERS, BUT WE ARE THE NATION'S LARGEST ENERGY PRODUCING UNION. UMWA MEMBERS MINE EVERY TYPE OF COAL THAT IS MINED IN THE UNITED STATES -- ANTHRACITE, BITUMINOUS, SUBBITUMINOUS AND LIGNITE. IN ADDITION TO THE ACTUAL MINING OF COAL, OUR MEMBERS ALSO ARE ACTIVELY ENGAGED IN THE CONSTRUCTION OF COAL MINES AND PREPARATION PLANTS, THE REPAIR AND MAINTENANCE OF EQUIPMENT AND THE RECLAMATION OF COAL LANDS AFTER THE COAL HAS BEEN MINED. THUS, UMWA MEMBERS ARE INVOLVED IN EVERY PHASE OF THE COAL PRODUCTION CYCLE.

AS I MENTIONED, UMWA MINERS ARE SPREAD THROUGHOUT THE UNITED STATES. WHILE OUR MEMBERSHIP IS SOMEWHAT CONCENTRATED IN THE COAL MINING COMMUNITIES OF APPALACHIA AND THE INTERIOR BASIN, WE ALSO REPRESENT THOUSANDS OF UNDERGROUND AND SURFACE MINERS IN THE SOUTH, THE SOUTHWEST, THE NORTHERN GREAT PLAINS AND THE ROCKY MOUNTAINS. ALL TOLD, WE REPRESENT ABOUT 70 PERCENT OF THE WORKERS IN THE U.S. COAL MINING INDUSTRY.

THE PARAMOUNT CONCERN OF THE UMWA IS THE MEN AND WOMEN WHO EARN THEIR LIVING BY MINING COAL. WE ARE CONCERNED ABOUT THEIR HEALTH AND SAFETY ON THE JOB, THE STABILITY OF THEIR EMPLOYMENT AND THE STANDARD OF LIVING THAT THEY MAINTAIN. ANYTHING THAT AFFECTS THEIR LIVES -- ON THE JOB OR IN THEIR COMMUNITIES -- IS AN IMPORTANT ISSUE FOR US.

EQUALLY IMPORTANT FOR US IS OUR GOAL OF A STRONG AND SECURE NATION THAT CAN PROVIDE FOR THE GENERAL WELFARE OF OUR CITIZENS. WE BELIEVE THAT ENERGY INDEPENDENCE IS AN IMPORTANT ELEMENT IN THIS EQUATION, BOTH IN TERMS OF ECONOMIC WELL-BEING AND NATIONAL DEFENSE. IT HAS NOT BEEN TOO LONG SINCE THE UNITED STATES WAS SHAKEN BY THE OIL EMBARGOES THAT OCCURRED TWICE IN THE 1970s. THESE EPISODES PAINFULLY DEMONSTRATED THE FOLLY OF DEPENDENCE ON OTHERS FOR ENERGY. WE RESOLVED THEN THAT WE WOULD TAKE THE STEPS NECESSARY TO ENSURE THAT WE COULD NEVER AGAIN BE HELD HOSTAGE TO FOREIGN ENERGY PRODUCERS.

THAT BRINGS US TO THE SUBJECT OF TODAY'S HEARING -- THE IMPORTATION OF COAL INTO THIS COAL-RICH NATION. IF EVER THERE WAS AN EXAMPLE OF "CARRYING COAL TO NEWCASTLE" THIS IS IT. OUR COUNTRY IS BLESSED WITH AN ABUNDANCE OF COAL THAT CAN SUSTAIN OUR ENERGY NEEDS FOR SEVERAL CENTURIES. WE HAVE THE TECHNOLOGY AND THE SOCIETAL MANDATE TO MINE OUR VAST COAL RESERVES WITHOUT DEGRADING THE QUALITY OF OUR LAND AND WATER RESOURCES. WE HAVE THE TECHNOLOGY AND THE SOCIETAL MANDATE TO MINE COAL SAFELY AND TO PROTECT THE HEALTH OF COAL MINERS. AND WE HAVE THE TECHNOLOGY AND THE SOCIETAL MANDATE TO BURN OUR COAL CLEANLY WITHOUT ADVERSE EFFECTS ON PUBLIC HEALTH AND WELFARE. WE HAVE THE ABILITY TO ACCOMPLISH ALL THESE IMPORTANT GOALS AND STILL PROVIDE THE MINERS WITH A DECENT STANDARD OF LIVING IN RETURN FOR THEIR ARDUOUS LABOR. IN ADDITION, WE CAN ACHIEVE SOCIETY'S WORTHWHILE GOALS AND STILL PROVIDE AMPLE PROFITS TO THE COAL OPERATORS IN RETURN FOR THEIR INVESTMENT.

MANY IN THE COAL INDUSTRY ARGUED TENACIOUSLY AGAINST THE LAWS AND REGULATIONS THAT SOCIETY DEMANDS OF US. SOME STILL OPPOSE THE ESSENCE OF THESE LAWS AND WOULD UNDO THEM IF THEY COULD. BUT MOST COAL OPERATORS HAVE COME TO ACCEPT THE WISDOM OF MINING COAL IN A RESPONSIBLE MANNER AND HAVE LEARNED TO ADAPT TO THE STRINGENT REQUIREMENTS THAT HAVE BEEN PLACED ON THE COAL INDUSTRY. WITHOUT QUESTION, WE HAVE A LONG WAY TO GO. FAR TOO MANY PEOPLE ARE KILLED OR MAIMED IN THE NATION'S COAL MINES. AND TOO MANY RECKLESS, IRRESPONSIBLE OPERATORS

FLAUNT THE LAW AND SHOW CONTEMPT FOR GOVERNMENT ANTHORITY AT THE EXPENSE OF THE RESPONSIBLE OPERATORS WHO ACCEPT THE STRICTURES THAT HAVE BEEN PLACED ON THEM BY THEIR FELLOW CITIZENS. BUT WE ARE MAKING PROGRESS. I BELIEVE THAT FURTHER PROGRESS IN THESE AREAS WILL BE GOOD FOR THE COAL INDUSTRY AND GOOD FOR OUR COUNTRY.

BUT OUR EFFORTS CAN BE SUBVERTED BY THE EROSION OF OUR MARKETS BY FOREIGN PRODUCED COAL.

FOR OVER A DECADE, COAL FROM SOUTH AFRICA HAS BEEN BURNED IN THE UNITED STATES. TO DATE, OVER 7.5 MILLION TONS OF SOUTH AFRICAN COAL HAVE BEEN IMPORTED BY U.S. UTILITIES. AS WE ALL KNOW, SOUTH AFRICA ENGAGES IN CONSTITUTIONAL RACIAL DISCRIMINATION THAT IS REPUGNANT TO FREEDOM LOVING NATIONS. ITS OFFICIAL GOVERNMENT POLICIES TOWARD BLACK WORKERS ARE THE VERY ANTITHESIS OF ACCEPTED PRACTICES IN OUR COUNTRY. THE UMWA OUTLAWED DISCRIMINATION BASED ON RACE, CREED OR NATIONAL ORIGIN UPON ITS CREATION 95 YEARS AGO. IN UMWA MINES, JOB ADVANCEMENT IS BASED ON SENIORITY AND ABILITY. IN SOUTH AFRICAN MINES, JOBS ARE AWARDED BASED ON THE COLOR OF ONE'S SKIN.

SOME TIME AGO, THE LEADER OF SOUTH AFRICA'S BLACK MINERS, CYRIL RAMAPHOSA, VISITED US TO DISCUSS THE PROBLEMS HIS UNION MEMBERSHIP FACED. I WISH THE CUSTOMERS OF THOSE UTILITIES THAT PURCHASE SOUTH AFRICAN COAL HAD THE OPPORTUNITY TO LISTEN TO

HIM. HE IS NO WILD-EYED RADICAL SEEKING VIOLENCE, BUT A DECENT HUMAN BEING WHO YEARNS FOR THE BASIC HUMAN FREEDOMS THAT WE TOO OFTEN TAKE FOR GRANTED. OUR CITIZENS ENJOY THE BENEFITS OF A SOCIETY DEDICATED TO JUSTICE, EQUALITY AND COMPASSION. THE BLACK MINERS OF SOUTH AFRICA REAP A BITTER HARVEST OF DISCRIMINATION AND ABUSE. I AM CERTAIN THAT THE MANAGEMENT AND CUSTOMERS OF GULF POWER CHERISH THE BENEFITS BESTOWED ON THEM BY A FREE, DEMOCRATIC SOCIETY. I WANT TO BELIEVE THAT THEY WOULD NOT WISH TO ASSIST IN THE PERPETUATION OF THE REPUGNANT RACIAL PRACTICES OF THE SOUTH AFRICAN GOVERNMENT. BUT I WOULD LIKE TO REMIND YOU THAT SOME 6,000 BLACK WORKERS AT A STATE FACILITY WERE FIRED LAST NOVEMBER SIMPLY FOR PROTESTING THE OFFICIAL RACISM OF THE REGIME IN WHICH THEY LIVE. A MONTH EARLIER 1,100 BLACK MINERS HAD BEEN FIRED SUMMARILY IN A DISPUTE OVER WAGE PAYMENTS. OUR PURCHASES OF SOUTH AFRICAN COAL ARE NO LESS THAN TACIT SUPPORT FOR SUCH RACIST POLICIES. AND THEY SERVE TO UNDERMINE OUR OWN FREE INSTITUTIONS.

WE SHOULD NOT BE SUPPORTING THE RACIST GOVERNMENT OF SOUTH AFRICA BY IMPORTING ITS COAL INTO THE UNITED STATES. IN THE PAST, SOME HAVE ARGUED THAT SOUTH AFRICAN COAL IS CHEAPER. THOSE WHO DO SO ARE PLACING A SHAMEFULLY LOW PRICE ON HUMAN FREEDOM. GULF POWER RECENTLY ANNOUNCED, HOWEVER, THAT IT WOULD NOT RENEW ITS CONTRACT WITH SOUTH AFRICA WHEN IT EXPIRES IN ABOUT TWO YEARS. THE REASON CITED WAS COST. SO NOW THERE IS NOT EVEN AN ECONOMIC BASIS FOR THESE PURCHASES.

POLAND PRESENTS US WITH ANOTHER REPUGNANT SITUATION. WE SHOULD NOT BE SUPPORTING THE OPPRESSIVE, COMMUNIST REGIME OF GENERAL JARUZELSKI AND HIS HENCHMEN. HOW ANYONE CAN SUPPORT A GOVERNMENT WHOSE OFFICIALS KIDNAP AND MURDER PRIESTS IS BEYOND ME. YET TAMPA ELECTRIC CONTINUES TO DO BUSINESS WITH POLAND. AS IN THE CASE OF SOUTH AFRICA, TO ENGAGE IN COMMERCE WITH COUNTRIES LIKE POLAND, WHICH DENIES BASIC HUMAN FREEDOMS TO ITS CITIZENS, IS TO GIVE TACIT APPROVAL TO THEIR PRACTICES. AS A FREEDOM LOVING PEOPLE, WE SHOULD STOP THE HYPOCRISY OF BUYING COAL FROM TOTALITARIAN REGIMES.

PERHAPS MORE IMPORTANT TO THE UNITED STATES IN ECONOMIC TERMS IS THE IMPORTATION OF COAL FROM COLOMBIA. AS INTERIOR SECRETARY DONALD HODEL RECENTLY SAID, THIS IS "VERY LOW COST COAL PRODUCED UNDER RULES AND RESTRAINTS THAT ARE NOT COMPARABLE TO OURS FROM AN ENVIRONMENTAL STANDPOINT." IN ADDITION, THE COAL IS BEING DEVELOPED WITH AMERICAN CAPITAL AND AMERICAN TECHNOLOGY. LET ME GIVE YOU A LITTLE BACKGROUND ON THIS PROJECT.

THE CERREJON REGION OF COLOMBIA CONTAINS ABOUT 90 PERCENT OF THE COUNTRY'S PROVEN COAL RESERVES. IT IS SITUATED ON A DRY AND SPARSELY POPULATED PENINSULA IN THE NORTHEAST CORNER OF COLOMBIA ADJACENT TO THE CARRIBEAN SEA.

TEN YEARS AGO THE GOVERNMENT OF COLOMBIA SOLICITED BIDS FROM INTERNATIONAL ENERGY FIRMS TO DEVELOP COAL RESERVES IN THE CERREJON REGION. THE SUCCESSFUL BIDDER WAS INTERNATIONAL COLOMBIA RESOURCES CORPORATION (INTERCOR), A SUBSIDIARY OF EXXON CORPORATION. INTERCOR SIGNED A JOINT DEVELOPMENT AGREEMENT IN 1976 WITH CARBOCOL, A COAL COMPANY FORMED AND OWNED BY THE COLOMBIAN GOVERNMENT. UNDER THE TERMS OF THE AGREEMENT, CARBOCOL WILL RETAIN TITLE TO THE COAL RESERVES AND INTERCOR WILL OPERATE THE MINE. CAPITAL INVESTMENTS ARE TO BE SHARED EQUALLY BETWEEN THE PARTIES, AS IS THE EVENTUAL OUTPUT OF THE MINE. EACH PARTNER WILL BE RESPONSIBLE FOR MARKETING ITS SHARE OF PRODUCTION. CURRENT PLANS CALL FOR ALL PRODUCTION FROM THE MINE TO BE EXPORTED, THE FIRST STEP IN THE COUNTRY'S AGGRESSIVE ENERGY PLAN. COLOMBIA'S NATIONAL ENERGY PLAN, ADOPTED IN 1982, CALLS FOR THE CAPTURE OF 10 PERCENT OF THE WORLD COAL EXPORT MARKET BY THE YEAR 2000. BY THAT TIME, COLOMBIA EXPECTS TO EXPORT 55 MILLION METRIC TONS OF COAL PER YEAR.

THE CERREJON MINE HAS AN ABUNDANCE OF RESERVES, WITH ESTIMATES RANGING AS HIGH AS 3 BILLION METRIC TONS. MORE IMPORTANT, 1.8 BILLION TONS ARE ESTIMATED TO LIE WITHIN 200 FEET OF THE SURFACE. PRODUCTION FROM THE MINE IS EXPECTED TO EXCEED 2 MILLION METRIC TONS IN 1985, WITH SIGNIFICANT INCREASES THEREAFTER. THE CURRENT SCHEDULE IS FOR 7 MILLION TONS IN 1986, 9

MILLION TONS IN 1987, 12 MILLION TONS IN 1988 AND FULL PRODUCTION OF ABOUT 15 MILLION TONS PER YEAR BY 1989. IF MARKET CONDITIONS WARRANT, HOWEVER, THE PRODUCTION LEVEL COULD BE GREATLY EXPANDED, POSSIBLY TO A LEVEL AS HIGH AS 25 MILLION METRIC TONS PER YEAR.

SINCE THE MINE IS LOCATED IN AN ISOLATED AND SPARSELY POPULATED AREA, A GREAT DEAL OF CAPITAL INVESTMENT IN INFRASTRUCTURE WAS REQUIRED TO BRING THE MINE INTO DEVELOPMENT. AS AN EXAMPLE, THE COMPANIES HAD TO BUILD A PORT AND DREDGE THE HARBOR TO ALLOW LARGE OCEAN-GOING COLLIERS AND GULF BARGES ACCESS TO THE MINE. SINCE THE MINE IS 90-100 MILES FROM THE PORT, TWO PARALLEL ROADS HAD TO BE CONSTRUCTED -- A GRAVEL ROAD TO ACCOMMODATE SUPPLY TRUCKS AND A RAILROAD TO HAUL COAL. IN ADDITION, TWO AIRPORTS WERE BUILT, ONE AT THE PORT AND ONE AT THE MINE. FINALLY, THE COMPANIES HAD TO CONSTRUCT AN ENTIRE COMMUNITY FROM SCRATCH IN ORDER TO HOUSE THE WORKERS. THE CAPITAL COST OF THE MINE AND RELATED FACILITIES IS SAID TO BE ABOUT $3 BILLION, WHICH WILL BE SHARED EQUALLY BY COLOMBIA AND EXXON. AT A TIME WHEN OUR OWN COAL INDUSTRY HAS THE ABILITY TO PRODUCE 100-200 MILLION TONS MORE THAN WE CAN CONSUME, THIS IS A VERY STRANGE WAY FOR AN AMERICAN COMPANY TO SPEND MONEY.

PERHAPS EVEN STRANGER IS THE FACT THAT AMERICAN TAXPAYERS ARE FOOTING A PORTION OF THE BILL. THE EXPORT - IMPORT BANK

HAS AUTHORIZED DIRECT LOANS OF $487.5 MILLION FOR THE CERREJON PROJECT AND AN ADDITIONAL $65 MILLION FOR PRIVATE CREDIT. I AM GREATLY DISTURBED THAT AMERICAN TAXPAYERS ARE SUBSIDIZING A PROJECT THAT WILL RESULT IN THE LOSS OF AMERICAN JOBS.

IT IS NOT A MERE POSSIBILITY THAT WE WILL SUFFER A LOSS OF JOBS. IT IS A VIRTUAL CERTAINTY. AMONG THE COUNTRIES TO WHICH COLOMBIA WILL SHIP COAL ARE THE UNITED STATES, DENMARK, SWEDEN, FINLAND, ITALY, IRELAND, SPAIN AND FRANCE. IN ADDITION, THEY CONTINUE TO MOUNT AN AGGRESSIVE MARKETING CAMPAIGN TO ADD NEW UTILITIES AND INDUSTRIAL CONCERNS TO THEIR LIST OF CUSTOMERS. MUCH OF THIS ACTIVITY IS OCCURRING IN THE UNITED STATES.

IT IS DIFFICULT TO PREDICT PRECISELY HOW MUCH FOREIGN COAL WILL BE BROUGHT INTO THE UNITED STATES IN COMING YEARS. HOWEVER, THERE IS A CONSENSUS AMONG INDUSTRY OBSERVERS THAT FOREIGN COAL PENETRATION INTO THE UNITED STATES WILL INCREASE SIGNIFICANTLY IN THE NEXT FEW YEARS.

A RECENT STUDY BY A PRIVATE CONSULTING FIRM, BASED ON INTERVIEWS WITH UTILITY COAL BUYERS, SHOWED THAT BY 1990 SOME 35 MILLION TONS OF UNCOMMITTED COAL DEMAND WILL EXIST AT ATLANTIC COAST AND GULF COAST UTILITIES THAT ARE TECHNICALLY CAPABLE OF BURNING FOREIGN COAL. OF THIS TOTAL UNCOMMITTED DEMAND, THE STUDY PROJECTED THAT ABOUT 8 MILLION METRIC TONS (8.8 MILLION SHORT TONS) WOULD BE SATISFIED WITH COAL FROM FOREIGN SOURCES.

THIS, IN FACT, MIGHT BE THE LOWER BOUND FOR COAL IMPORTS, SINCE THE STUDY DID NOT CONSIDER POSSIBLE MOVEMENTS OF COLOMBIAN COAL UP THE MISSISSIPPI RIVER TO MIDWESTERN POWER PLANTS. THIS MIGHT OPEN UP ANOTHER MARKET THAT COULD INCREASE THE LEVEL OF COAL IMPORTS SIGNIFICANTLY.

EVEN IF NO OTHER MARKETS ARE OPENED, HOWEVER, THE DISPLACEMENT OF 8.8 MILLION TONS OF U.S. PRODUCTION WILL CAUSE SIGNIFICANT HARM TO COAL MINERS AND THEIR COMMUNITIES. MUCH OF THE COAL THAT WOULD BE DISPLACED IS PRODUCED IN APPALACHIA, AN AREA THAT ALREADY HAS BEEN DEVASTATED BY THE SEVERE DECLINE IN THE WORLD STEEL INDUSTRY. BASED ON AVERAGE 1983 COAL MINE PRODUCTIVITY IN APPALACHIA, 8.8 MILLION TONS OF FOREIGN COAL WOULD BE THE EQUIVALENT OF ABOUT 2800 DIRECT MINING JOBS. THESE JOBS WOULD GENERATE OVER $80 MILLION PER YEAR IN DIRECT INCOME THAT THE MINERS WOULD SPEND IN THEIR COMMUNITIES. IN ADDITION TO DIRECT JOBS, THERE WOULD ALSO BE AN INDIRECT EMPLOYMENT EFFECT IN SUPPORT AND SERVICE INDUSTRIES. WE ESTIMATE THAT THE LOSS OF DIRECT COAL MINING JOBS WOULD CAUSE AN ADDITIONAL LOSS OF 6300 INDIRECT JOBS THAT WOULD HAVE GENERATED AN ADDITIONAL $100 MILLION PER YEAR OF INCOME FOR THE COAL MINING COMMUNITIES OF APPALACHIA.

THE U.S. DEPARTMENT OF COMMERCE ALSO HAS EXAMINED THE POTENTIAL FOR DISPLACEMENT OF DOMESTIC COAL. IN A REPORT RELEASED JUST LAST MONTH, THE COMMERCE DEPARTMENT PROJECTED

THAT BETWEEN 6.4 MILLION AND 17.7 MILLION TONS OF U.S. COAL COULD BE DISPLACED BY IMPORTS OF FOREIGN STEAM COAL. THE ANALYSIS FURTHER PROJECTED THAT THE DISPLACED TONNAGE COULD RESULT IN THE LOSS OF UP TO 2,780 DIRECT COAL MINING JOBS.

THESE NUMBERS SHOW ONLY A PART OF THE ECONOMIC IMPACT OF COAL IMPORTS ON THE U.S. BUT THEY CERTAINLY SHOW THAT THE COST OF IMPORTED COAL IS CONSIDERABLE IN TERMS OF UNEMPLOYMENT AND LOST OPPORTUNITY TO GENERATE INCOME IN AREAS OF THE COUNTRY THAT DESPERATELY NEED AN ECONOMIC BOOST.

MR. CHAIRMAN, THE UMWA HAS BEEN ENGAGED IN A LONG STRUGGLE TO RAISE THE STANDARD OF LIVING AMONG THE NATION'S COAL MINERS. IT HAS NOT BEEN EASY, BUT WE HAVE BUILT AN ECONOMIC SYSTEM IN THE U.S. COAL INDUSTRY THAT PROVIDES DECENT WAGES, PENSIONS AND MEDICAL CARE FOR THE WORKERS WHILE ENSURING THE NATION AN ABUNDANT SUPPLY OF LOW COST ENERGY. THIS HAS BEEN ACCOMPLISHED THROUGH THE BEST SYSTEM THAT HAS EVER BEEN DEVISED TO ENSURE INDUSTRIAL DEMOCRACY -- FREE COLLECTIVE BARGAINING.

WE STRONGLY BELIEVE THAT AMERICANS, DEALING WITH ONE ANOTHER AS EQUALS IN FREE COLLECTIVE BARGAINING, SHOULD DETERMINE THE STANDARD OF LIVING IN OUR COUNTRY. THE PROCESS HAS SERVED OUR NATION WELL BY CREATING ONE OF THE HIGHEST ECONOMIC STANDARDS THAT THE WORLD HAS EVER KNOWN. WE SHOULD NEVER ALLOW

AMERICAN WAGES AND STANDARDS TO BE SET BY THE LOWEST COMMON DENOMINATOR IN THE WORLD MARKET. IF WE DO, OUR LIVING STANDARD WILL BE SET BY THOSE WHO EMPLOY SLAVE LABOR AND THOSE WHO PERPETUATE PRACTICES THAT WERE ABANDONED BY CIVILIZED SOCIETY GENERATIONS AGO. IT IS AN INESCAPABLE FACT THAT WE WILL ALWAYS HAVE WORKERS IN OTHER PARTS OF THE WORLD WHO WILL BE WORKING FOR SERF WAGES BECAUSE THEIR FAMILIES ARE NEAR STARVATION. AND TO THE SHAME OF ALL WHO BELIEVE IN FREEDOM, WE WILL ALWAYS HAVE MULTINATIONAL CORPORATIONS THAT WILL EXPLOIT THE PITIFUL ECONOMIC CONDITIONS OF THESE DESPERATE PEOPLE. WE SHOULD DO ALL THAT WE CAN TO HELP THE WORLD'S DOWNTRODDEN. BUT WE SHOULD NEVER, NEVER ALLOW AMERICAN WORKERS TO BE DRAGGED INTO THE ECONOMIC MORASS THAT SUFFOCATES MANY OF THE WORLD'S WORKERS.

THE LOWERING OF WAGE RATES AND STANDARDS OF LIVING AMONG OUR FELLOW CITIZENS IS THE LOGICAL END RESULT OF A CONTINUING FLOOD OF CHEAP IMPORTS THAT ARE BASED ON WAGE RATES AND OPERATIONAL PRACTICES ALIEN TO OUR WAY OF LIFE. BUT SUCH A RESULT HAS ECONOMIC IMPLICATIONS FAR BEYOND THE EVERYDAY LIFE OF THE AFFECTED WORKERS. TWO-THIRDS OF OUR GROSS NATIONAL PRODUCT IS THE RESULT OF PERSONAL CONSUMPTION -- THE PURCHASE OF CARS, APPLIANCES, FURNITURE AND OTHER GOODS THAT MAKE OUR LIVES COMFORTABLE AND SUSTAIN THE PROFITS OF MAJOR CORPORATIONS. THE LOWERING OF WAGE RATES, THEREFORE, NECESSARILY IMPLIES A REDUCTION IN GNP. IF WORKERS DO NOT HAVE THE INCOME TO BUY GOODS

OTHER THAN THE BASIC NECESSITIES, WHO WILL BUY THE PRODUCTS OFFERED FOR SALE BY THE CORPORATIONS? OUR ECONOMIC SYSTEM IS BUILT ON THE PURCHASING POWER OF CONSUMERS. WE SHOULD NOT LET THAT SYSTEM BE ERODED BY A FLOOD OF LOW COST IMPORTS.

MR. CHAIRMAN, TWO DIFFERENT APPROACHES HAVE EVOLVED IN THE CONGRESS TO DEAL WITH THE PROBLEM OF IMPORTED COAL. BOTH OF THEM HAVE CONSIDERABLE MERIT. ONE APPROACH, EMBODIED IN H.R. 1905, WHICH RECENTLY WAS ADOPTED BY THE HOUSE INTERIOR COMMITTEE, WOULD PLACE A MINIMUM TARIFF OF EIGHT DOLLARS PER TON ON COAL FROM ANY NATION THAT IS NOT A NET IMPORTER OF U.S. COAL. THE UMWA HAS TESTIFIED IN SUPPORT OF THAT MEASURE AND HOPES THAT THE SENATE WILL CONSIDER SIMILAR LEGISLATION.

WE ALSO BELIEVE THAT THE APPROACH DEVELOPED BY SENATOR WENDELL FORD OF KENTUCKY DESERVES CAREFUL CONSIDERATION BY THIS COMMITTEE. S. 946 WOULD RESTRICT ACCESS TO FEDERAL COAL LEASES TO U.S. FIRMS THAT DEVELOP COAL RESERVES OVERSEAS FOR THE PURPOSE OF EXPORT TO THE UNITED STATES. PERHAPS A MELDING OF THE TWO APPROACHES WOULD BE APPROPRIATE. A TARIFF PROVISION WOULD ENSURE THAT AMERICAN MINERS ARE COMPETING ON AN EQUAL BASIS WITH FOREIGN PRODUCERS. AND A LEASE RESTRICTION PROVISION WOULD ENCOURAGE U.S. FIRMS TO DEVELOP DOMESTIC RESERVES.

MANY OF US SHARE THE FEAR THAT THE CONTINUED DETERIORATION OF OUR BASIC INDUSTRIES WILL LEAVE AMERICA SERIOUSLY VULNERABLE

SHOULD THERE BE MAJOR CONFLICT IN THE WORLD. I BELIEVE IT IMPERATIVE THAT WE DO ALL IN OUR POWER TO PROTECT AND BOLSTER THOSE BASIC INDUSTRIES. AT ONE AND THE SAME TIME, WE CAN CONTRIBUTE TO OUR NATIONAL SECURITY AND OUR ECONOMIC WELL BEING. WE ARE BLESSED WITH AN ABUNDANT RESOURCE, EFFICIENT TECHNOLOGY AND A TALENTED WORK FORCE. OUR POLICY MUST BE ONE THAT RECOGNIZES THESE BLESSINGS AND USES THEM TO PRESERVE AND PROTECT ALL THAT WE HOLD DEAR.

Senator WARNER. Mr. Trumka, forgive me for being away from the chair momentarily when you were introduced. I have had the opportunity to work with you over several years now, and I wish to say publicly how much I appreciate our professional relationship and we have a common goal of trying to provide for those people that dedicate their lives to the mining industry.

Now you gave some figures about the potential of this mine in Colombia. How would you compare that to, say, the production in Appalachia? I want to get some way—you used the figure, I think, 300 million was the figure you used on the potential of this mine?

Mr. TRUMKA. 35 million. I believe the potential that I talked about for the mine was possible 25 to 30—25 million metric tons.

Senator WARNER. I copied those down—7, 9, 12, and 15, and up to 25 million tons of production. But the reserves in this mine, I thought you gave the——

Mr. TRUMKA. Up to 3 billion tons.

Senator WARNER. Is there any way to compare that with, say, the Appalachian region of our country?

Mr. TRUMKA. I would say that overall the Appalachian region has significantly more than 3 billion tons in reserves. However, I'm unaware of any single mine that has those types of reserves associated with it.

Senator WARNER. What sort of environmental conditions had to be met in the construction of this mine?

Mr. TRUMKA. They are very, very limited. It's a self-imposed regulation, which to us equates to virtually no regulation at all. In the United States, you know that we are regulated in our amounts of water control, the amount of reclamation we do. Each one of those items costs a significant amount of money.

Senator WARNER. I'm fully aware of that. So basically they have, as far as you know, none of that overhead cost attributed to environmental compliance that we have in the United States?

Mr. TRUMKA. That's correct, sir.

Senator WARNER. What about the wage rates being paid to those working in the Colombian mine?

Mr. TRUMKA. Significantly lower, approximating probably less than 10 percent of American workers.

Senator **Warner**. In other words, the worker in this mine is receiving in total compensation a figure that's approximately 10 percent of what an American miner makes?

Mr. **Trumka**. I would say that's probably accurate.

Senator **Warner**. Mr. Rockefeller, why don't you have a few questions?

Senator **Rockefeller**. Mr. Trumka, some years ago I remember going to the Monterrey mine in Wayne County, WV.

Mr. **Trumka**. Yes, sir.

Senator **Rockefeller**. Exxon had put I don't know how many million of dollars into that mine, and it was considered at that time to be not only the great hope of Wayne County, WV, economically, but also one of the signals of hope for Appalachia. It is interesting in analyzing the coals that come from, that would have come from the Wayne County mine, which is in effect mothballed, and the coals that come from the Colombia mine—that the coal properties are almost identical with respect to BTU's, sulfur content, matters of that sort, in moisture, ash, a variety of properties.

Mr. **Trumka**. More than comparable.

Senator **Rockefeller**. So you can say that they are entirely compatible, ones in West Virginia, Appalachia and the United States, to the ones in Colombia.

They closed down the one in West Virginia and they opened up the one in Colombia. Without meaning to put too fat a softball across the plate, could you speculate as to why they mothballed an American mine with similar coal properties and opened one in Colombia?

Mr. **Trumka**. I think one of the earlier witnesses probably captured that statement as best that can be, and he said it was probably more profitable for them to do just that.

Senator **Rockefeller**. All right. The administration witnesses here this morning have talked about coal imports, and they have seemed to refer to the Colombian mine as really not so much of a problem. They say well, there could be a short-term problem, but nothing very great. I haven't heard anybody talk about 1990, 1995, the year 2000.

Is it not your impression that after a number of these long-term contracts with utilities go out or have to be renewed that in fact the entire import situation from the Colombia mine could go sharply upward unless conditions change?

Mr. **Trumka**. Yes, sir, that's exactly my impression. If you look at the figures, they show that by 1990 there will be roughly 35 million uncommitted tons of coal in long-term contracts on the west or east and gulf coasts that could be serviced by Colombia. The estimates are that by 1990 8.8 or better—8.8 million metric tons or better will be coming into this country.

That translates out into a job loss of roughly 2,800 coal miners and indirect job loss of roughly 8,000 people total who will lose their jobs because of that. That may seem insignificant. It's not insignificant to those communities that get decimated whenever the coal economy of their area is destroyed, and the only economy in their area is the coal industry.

Senator **Rockefeller**. Is it not also a possibility that utilities as they come to the 1990's and they are looking at renegotiating, that because utilities share the same frustration that many of us do and I know that you do about the high cost of rail transportation and the apparent unwillingness of the ICC to act with respect to rail costs, that utilities might indeed turn more toward Colombia, with the express purpose of saying to American producers and/or American railroads that if you don't get your price down we're going where the price is already down?

And, therefore, the utilities would use it in a business sense as a leverage and that would not just be faking on their part, but they might in fact really do it to a far greater extent than we would now anticipate.

Mr. TRUMKA. I think that's exactly correct, and I think that the House Committee in their findings actually made that conclusion, that some of the utilities intended to use that switching of suppliers as a bargaining chip to reduce rail rates, and in the process hold the coal miners and the national economy of this country hostage to that kind of bargaining.

Senator ROCKEFELLER. You've indicated to the Chairman that there really aren't any environmental laws in Colombia and that labor costs are about 10 percent of what they would be in this country. As far as you know, do they have surface mining and reclamation act?

Mr. TRUMKA. That's correct.

Senator ROCKEFELLER. Do they have fugitive dust or other standards of any sort that you know of?

Mr. TRUMKA. They do not.

Senator ROCKEFELLER. So their cost is simply to pay what they can get away with, which is probably more than most of those folks are making at the present time, but in any event 10 percent of our situation, and then with the help of the Export-Import Bank getting the coal to market and bombarding Florida and the gulf coast States, and potentially the Southeast and elsewhere.

I mean, would it not seem if they are going to be producing 15 million tons in their first phase and 30 million tons in their second phase, would they not seem to have a very substantial market in the United States, taking jobs away from our miners?

Mr. TRUMKA. They would indeed, but I don't think you should even stop the focus on the American market, because one of the earlier witnesses said well, most of this coal's going to be destined for Europe. Whose coal does he think that would have displaced when it gets to Europe?

Senator ROCKEFELLER. That was my next question.

Mr. TRUMKA. It will displace us. It will leave our balance of trade less and less because we will be exporting less and less coal. We're down from our one-time high of 118.5 million tons of export coal, down to last year, where we were at about 81.5 million. That was slightly up, but it's still significantly less than where we have been.

That difference, between 81 million and, say, 120 million could have made a significant dent in the trade deficit that we seem to be having imposed upon us right now, and that mine and their capturing the European market and another company, which is Occidental Petroleum, who is negotiating with the Communist Chinese to set up a mine equal to this in size and capture the Japanese market, when compounded could result in our exports being cut significantly, thus, our balance of trade, our deficit, going up significantly.

Senator ROCKEFELLER. If they're going to the Far East and if they're going to Europe and if they plan to do that and expect America to feel better about it, that's not going to cut it in West Virginia, in that we are the folks that do most of the exporting in this country. It's going to be precisely into our markets and out of our jobs that they are going to go if they are successful.

One final question, the question of tariffs, the dollar tariff imposed, which I would support, as opposed to what I have heard you talk about on other occasions, and that is the sort of an overall legislative philosophy about multinational corporations and the propriety of their activities insofar as they affect this country adversely.

In your judgment, would an import tariff on coal, let's say of $8 or $10 or whatever it might be, would that be effective in slowing down what's going on in Colombia and potentially elsewhere, or would it come close to solving the problem? Or would it be simply symbolic and a message?

Mr. TRUMKA. No. I think it could be a combination of all of those. It would be effective in the short run, at the very least, in slowing down or perhaps stopping completely the flow of coal from Colombia into this country as well as from South Africa into this country.

If you look at the ranges for just reclamation costs, some of the industry figures go as high as $17.70 a ton for reclamation costs, and Dan will be able to address those as well. Our figures are closer to $10 a ton, and that would be slightly above the tariff, but that would at least give us an equal footing, because while there are corporations in this country, mining companies, who would like to do away with our environmental laws and our health and safety laws, I think the vast majority of those coal companies have realized their importance and are attempting, they are attempting to live by those rules.

And they realize that by living by those rules that this Congress has imposed they create a better America, one that is more sound environmentally, one that is better for its working people. And I think they support that. This would give us a fair, flat field to play on.

Senator ROCKEFELLER. Mr. Chairman, I have no more questions. One thing I want very strongly to say. It is often said in conversations that I have had with the Japanese and with people who observe the energy situation in this country that it is comparable to the steel industry. They say well, steel industry isn't investing in itself, or they'll say about the steel workers well, the steel workers have run the cost of their contracts too high.

I think it ought to be said very clearly—and I know that you would agree with me—that there is probably no industry anywhere in this country at this time and over the last 5 to 8 years in which labor-management relations have improved more dramatically than in the coal industry, and in which there has been a greater decrease of work stoppages, lost man-hours, woman-hours, TRO's—temporary restraining orders—wildcats, the rest of it, than in the American coal industry.

In fact, and, of course, including more mechanization. I doubt there is any industry in this country that can show on an annual basis an increase in productivity on the rate that the American coal industry and the American coal miner has produced. It is the great, untold story, not only of labor-management relations—since nobody wants to write about it; everybody would much rather think about strikes and stocking heads and baseballs bats and the rest of it—but it's the great untold story more than any other industry.

Labor-management relations have improved. Workers are at work. And the relationship is far clearer and cleaner than it ever has been, and productivity increases dramatically. That needs to be said to the American public as well as to those who consider the purchase of our coal.

Thank you, Mr. Chairman.

Mr. TRUMKA. Senator, productivity has increased roughly 70 percent since 1977 in our sector. We are very, very proud of that. We are also working very closely with the industry to try to get the coal industry to become, as everybody has said, the Saudi Arabia of coal. We have that capability. It's just a matter of realizing it and giving a commitment to obtaining that goal rather than just giving lip service to it.

And I believe this is a very, very important first step to getting us there, and I thank you for your comments.

Senator WARNER. I share the Senator from West Virginia's views, and I think the Senator and I would agree that part of that progress is attributed to the witness today. He is perhaps a little immodest and should take credit for those improvements in your industry.

Mr. TRUMKA. Thank you very much, sir.

Senator WARNER. I'd like to sort of draw you out a minute on this mine. I think a lot about it. I'm thinking about going down and taking a look at it. But we're all watching. There are world-class tennis tournaments here. This is a world-class mine. This is one of a kind almost, isn't it?

Mr. TRUMKA. Yes, it is.

Senator WARNER. I mean, is there anything in, say, South Africa or Australia or other major coal exporting nations that compares with this?

Mr. TRUMKA. None, although there is one on the drawing board for Communist China that would be somewhat similar.

Senator WARNER. But this Colombian mine is far advanced now, isn't it? I mean, it is moving into a mature production phase.

Have you got any estimate of the price that they can put a ton of coal on the docks in Virginia would be compared to, say, a Virginia mine?

Mr. TRUMKA. I can only give you—I don't have the specific figures from that mine. I can give you the figures for the overall average for imported coal. That was roughly $34 a ton for the average for 1984, and I believe the last quarter it was up significantly. In fact, I believe it was Tampa Electric that discontinued the thing. This country, utility prices for domestic coal averaged about $34.

Senator WARNER. Well, I've heard some prices that are fairly astonishing.

Mr. TRUMKA. They are indeed, and I was giving the average of all imported.

Senator WARNER. For what this mine can deliver in Newport News, VA, the Hampton Roads area.

The last thing, just out of interest, a lot of your miners are watching the progress of this hearing. How do they in Colombia take care of their people that might contract black lung? I ask that because that may be the only subsidy as such that the Federal Government participates in indirectly. I think it's largely funded through the industry, but from time to time there may be some possible subsidy. Do you know what they do with those folks down there?

Mr. TRUMKA. I believe that it is not a recognized occupational disease.

Senator WARNER. And, therefore, the society doesn't care for them as does ours?

Mr. TRUMKA. I would anticipate that they would be cared for in the following ways. Whenever the individual became unable to do his job because black lung had progressed to such a bad degree, he would be dismissed and another younger or other worker that would not have the disease would be his replacement. And the cost that is associated with those would be borne by the individual.

Senator WARNER. We thank you, Mr. Trumka.

Mr. TRUMKA. Thank you, Mr. Chairman.

Senator WARNER. Perhaps you'd remain and we can hear the other witnesses on the panel.

We will now hear from Mr. Schleede—oh, excuse me, Mr. Gerkin.

STATEMENT OF DANIEL R. GERKIN, PRESIDENT, MINING AND RECLAMATION COUNCIL OF AMERICA

Mr. GERKIN. Thank you, Mr. Chairman.

I am Dan Gerkin, president of the Mining and Reclamation Council. As you are aware, we represent a broad spectrum of producers and suppliers and State coal associations around the country. We particularly represent the interest of small or medium-sized independent coal producers.

We appreciate the opportunity to be here, your leadership on this emerging issue. I think we have found out already today that there are some very compelling issues that need to be addressed by the Congress regarding the future of our industry, and we appreciate your leadership in that regard.

I have an extensive statement that will be submitted for the record. I will do my best to summarize the major points very briefly.

The bottom line, as we have found today, is this. Despite the fact that U.S. coal is in the forefront of mining technology, despite the fact that we have become more efficient, despite the fact that we have realized a 70-percent increase in productivity in the last 6 years, U.S. coal simply is not price competitive with foreign coal in select domestic markets.

Because of that factor, of course, foreign coal imports are on the rise. You've already heard the statistics, and I'll not repeat them, about escalating imports. One thing I would like to point out, we've got a small discrepancy with the Department of Commerce study in that we believe the numbers are potentially very conservative, because they did not consider any growth or the impact of new coal-fired generation capacity that's going to come on line between now and 1990.

The Energy Information Agency estimates that 65,000 megawatts of new coal-fired capacity will come on line in the next 5 years. Of this amount, 41,000 megawatts or 63 percent is going to come on line in the east, Southeastern States and Gulf Coast States where the utilities have already expressed a keen interest in buying foreign coal.

So I think the 17.7 million ton figure noted by Commerce, I think is highly conservative. Whether and to what degree this uncommitted demand is ultimately met by imported coal is still up for speculation at this point. What is not speculative at this point, however, is that there is a substantial market that exists in the United States for imported coal, and this imported coal is going to displace U.S. production, U.S. jobs. It's going to have a negative impact on the economic structure of selected coproducing regions.

The basic question is, I think, are rising coal imports in the national interest. If they are not, what's the appropriate response? We all know the goals of the national energy policy—maximizing domestic production, encouraging domestic companies to produce our own energy needs in this country. I think without question there is no doubt that increased coal imports threaten the objectives of any national energy objectives.

There are several basic reasons I think that U.S. coal cannot compete with foreign coal in select markets. The unnecessarily environmental compliance and labor standard costs faced by U.S. producers; No. 2, an issue that has been discussed today, rail transportation rates for monopolized shippers that are excessive, and shipping rates for intercoastal water movements that are statutorily mandated to be carried on U.S.-flag ships; No. 3, countries like Colombia and Poland that subsidize their coal industries through direct financing of mining ventures, as well as transportation, as construction—as well as construction and operation of transportation facilities; and, four, the environmental requirements, safety and health laws, the wage and benefit levels, that are far less stringent or generous in those countries that are exporting coal into the United States.

In my statement I have highlighted four or five examples of what we consider to be very onerous environmental regulations that I think will help make the point that I'm trying to make in that regard.

We think that these are the factors that have got to be addressed by the Congress if we are going to maintain the competitiveness of U.S. coal and the viability of our industry in these impacted markets. Without some action, we believe that certain sectors of the industry will stagnate and will begin to shrink as investment capital and operators leave the industry to pursue ventures which promise greater return on investment.

Our regulatory burden has already taken a tremendous toll on the industry in this country. Ten years ago there were 7,000-some coal companies in this country. Operating today there are less than 3,600. With today's continuing tight market and depressed prices, growing competition from cheap foreign coal will push even more producers out of our domestic markets.

An additional major threat that I'd like to talk about very briefly on the competitiveness of our coal are proposed tax changes that will impact capital formation. To stay alive, as you know, Mr. Chairman, in the coal industry today you've got to be continually increasing your productivity. Productivity is a direct reflection of the introduction of new technologies and new equipment, more efficient equipment.

The President's recently announced tax proposal would have a particularly adverse impact on the availability of capital to invest in new technology and equipment. The increased tax burden for coal, which I think is estimated to be approximately $1 billion per year, would both increase the attractiveness of investing in the coal industry and substantially reduce the availability of internally generated capital for new investments.

The resulting decline in productivity would further erode our competitive position, both in domestic markets as well as international markets, if several key proposals of the President's package are enacted.

In concluding, I would just like to say for our part the coal industry will continue to work to reduce mining costs and improve productivity. We need help from Congress, however, in making environmental and safety laws more cost effective, in eliminating the barriers to competition, in coal transportation, and in providing meaningful rate review under the Rail Act.

These are the issues that are at the heart of coal's inability to compete with foreign producers. Unfortunately, it is not realistic, I think, to assume that political solution to these very complex issues will be achieved in the short term. In that regard, we believe that in the interim there are measures that can be taken to help offset the unfair advantages now enjoyed by foreign producers.

A coal import fee such as that proposed by Congressman Rahall in H.R. 1905 provides, we believe, a reasonable assurance that U.S. coal producers are not unfairly disadvantaged by their compliance with regulatory requirements to which foreign producers are not held. Accordingly, our board of directors in March voted to support H.R. 1905.

In conclusion, Mr. Chairman, I would like to underscore the fact that if U.S. coal is to remain competitive in selected markets that Congress must take a hard look at the costs associated with regulatory compliance and transportation costs and act now, before our coal industry goes the way of the steel and, more recently, the copper industries.

Again, thank you for lending your committee's attention to this issue and giving us an opportunity to present our views. I'd be happy to answer any questions.

[The prepared statement of Mr. Gerkin follows:]

Statement
Mining and Reclamation Council of America
Oversight Hearing on Coal Imports
Subcommittee on Natural Resources Development and Production
Committee on Energy and Natural Resources
June 6, 1985

Mr. Chairman, members of the Natural Resources Development Production Subcommittee. I am Dan Gerkin, President of the Mining and Reclamation Council of America (MARC). MARC is a national trade association of coal producers and allied industries with approximately 250 members, including 34 state and regional coal associations. Through its corporate membership and affiliated associations, MARC represents more than 3,000 coal operators and industry suppliers nationwide. MARC represents the interests and concerns of the small to medium size independent coal producers.

We appreciate the opportunity to appear today and present MARC's views on an issue of growing concern within the U.S. coal industry, the importation of foreign coal into domestic markets. Similarly we appreciate the leadership of you and your Subcommittee in focusing on this emerging issue.

There is no doubt that U.S. coal imports have increased in recent years and will continue to do so in the future. Imports in 1983 doubled to 1.3 million tons over the previous year. As the recent Department of Commerce study indicates, in only five more years, as many as 31 power plants may be using 17.7 million tons of foreign coal. That would be a thirteen-fold increase in coal imports in just six years. However, these mumbers are extremely conservative because the Department of Commerce study was based on current electrical generating capacity in the potentially impacted markets and did not consider the development of any new generating capacity.

The committee report on H.R. 1905, the "Coal Trade Equalization Act of 1985," brings this additional concern clearly into focus when it says:

> "The future prosperity of many coal regions of the Nation depends largely on the burgeoning steam coal markets of the South. According to estimates published by the Energy Information Administration, 65,490 megawatts of new coal-fired electric utility capacity will come on line nationwide by 1990. Out of this amount, the South Atlantic, East South Atlantic,East South Central and West South Central states account for 41,267 megawatts--63 percent of the estimated new demand for utility steam coal. It is in many of these very states that a growing interest among electric utilities in imported coal exists."

Mr. Chairman, we find it ironic and illogical that, at this time in our history the United States, with nearly 500 billion tons of demonstrated coal reserves, is slowly but steadily increasing its imports of foreign coal. The extent of the irony was made clear recently by TASS, the official Soviet News Agency. TASS attacked the U.S. for increasing coal imports and charged that "This is determined by the selfish striving of U.S. imperialism to save its coal until that of the developing countries is exhausted and they are forced to import fuel from the U.S.A." Of course, the Soviet charge is ludicrous political rhetoric, but it underscores the absurd situation facing the domestic coal industry. U.S. coal, despite the fact that it is in the forefront of mining technology, and has had productivity increases for six consecutive years, is not price competitive with foreign coal in domestic markets.

A number of factors contribute to the non-competiveness of U.S. coal. Among them are the labor, safety and health, and environmental compliance standards which U.S. producers must meet that are not applied in other nations which export to the U.S. Other significant factors are the comparative cost of transportation, the U.S. tax burden, the current high value of the dollar among international currencies and the subsidization of production by foreign governments in an effort to increase exports to obtain foreign currency.

Other expert witnesses have or will outline their projections on the future of foreign imports and the likely markets to be penetrated. Based upon the information available to date, the likely markets basically appear to be any utilities served by water or in close proximity to water transportation. This market area encompasses the Gulf and Atlantic Coast and the Lower Mississippi River. The current uncommitted utility demand in those areas for coal that is both price and quality competitive, as analyzed by Bennett & Associates of Denver, Colorado, is 14.2 million tons in 1985 and 37.6 million tons for 1990. The uncommitted mining capacity for countries which export to the United States, again on a price and quality basis, far exceeds that level. Whether, and to what degree, the uncommitted demand of Lower Mississippi, Gulf, and Atlantic utilities is met by imported coal and whether those utilities honor their contractual oblitgations for the committed demand to U.S. coal producers is a matter for speculation at this time. What is not speculative, however, is that a substantial market exists for imported coal in the United States and that increased coal imports will displace domestic coal production and employment, adversely impacting the economic structure of selected coal producing regions in the United States.

The questions raised by the threat of increasing imports is whether it is in the national interest to permit it to occur and, if it is not, what is the appropriate response. The national energy policy, evolved through the decade of the '70's and in response to several severe energy shocks, is to enhance national security by maximizing the use of domestic resources for our energy needs and to foster and develop domestic industries that meet our energy needs and contribute to the energy needs of the free world. Simultaneously, the policy promotes preserving or enhancing the environment and maintaining the quality of life through assuring a safe and healthful workplace and an adequate wage and benefit level for the nation's workers. There is no doubt that increased coal imports are not consistent with those objectives.

U.S. coal producers, in spite of the utilization of the most technologically advanced mining methods and the continuing increases in productivity per man-day extracting coal, can not successfully compete on a delivered price basis in selected markets. There are several reasons for this: (1) unnecessary environmental compliance and labor standard costs faced by U.S. producers; (2) rail transportation rates for monopolized coal shippers that are excessive and shipping rates for intra-coastal water movements of coal that are statutorily mandated to be carried on U.S. vessels; (3) coal industries in nations, as Columbia and Poland, that are subsidized through direct financing of mining ventures and construction and operation of transportation facilities; and (4) environmental requirements, safety and health laws, and wage and benefit levels that are, in varying degrees, much lower and far less stringent in countries that export to the U.S.

Some or all of these reasons for the non-competiveness of U.S. coal must be addressed to assure the industry's continuing viability in those impacted domestic markets. In the absence of action, the coal industry will stagnate and begin to shrink as investment capital and operators leave the coal industry and pursue ventures which promise a greater return on their investment.

For the record, I would like to cite several examples in the area of environmental regulation.

There are numerous examples of final and proposed environmental regulations which affect the coal industry that are extremely costly yet produce no commensurate environmental benefits. In addition, there are countless others which are so inflexible regarding the method of compliance that coal production costs are significantly raised even though more cost effective and equally environmentally protective pollution control techniques or other mining related processes are seemingly available. For the purposes of illustration I wish to cite several examples stemming from each of the three major environmental statutes directly applicable to this industry, the Clean Water Act, the Clean Air Act, and of course, the Surface Mining Control and Reclamation Act.

Under the auspices of Section 301 of the Clean Water Act, the Administrator of EPA has assigned to the coal mining industry a pH effluent limit for Best Available Technology (BAT) and new sources between 6 and 9. These limits, in many instances, fail to take into consideration the water quality baseline conditions and are incompatible with the natural characteristics of the receiving streams. The present range is biased toward alkaline conditions. However, it must be recognized that in a perfectly clean atmosphere the pH of rain water droplets in equilibrium with CO_2 in air is 5.6 while the pH value of rainwater due to natural sulphur compounds in the atmosphere can be expected to range from 4.5 to 5.6. In addition to atmospheric waters, many of the streams, especially in the headwaters of the Appalachian coal fields are naturally acidic, with a natural background pH ranging from 4 to 6. As a consequence, the high effluent limits for pH as prescribed by EPA compels discharges which are detrimental to natural ecosystems of these areas. Under these standards, the mining industry spends millions of dollars each year treating rainwater and unaffected ground and surface waters to pH levels which are adverse to adjacent natural ecosystems. Adding increased flexibility to the pH limits either by lowering the range to 5 to 9 or allowing for site specific ranges would allow reduced pollution treatment costs thereby lowering coal prices, at no harm to the environment.

The second example addresses an EPA proposed rule written under the authority of Section 169 of the Clean Air Act, the section providing for the Prevention of Significant Deterioration (PSD). On October 26, 1984 the EPA proposed to add surface coal mines to the list of sources whose fugitive emissions count in source applicability determinations under the PSD program. If these regulations stand as proposed the entire surface coal industry will face a major restructuring which will significantly reduce the amount of coal produced nationally while at the same time significantly increasing its cost. A study recently completed for MARC indicates that Appalachian mines in excess of 100 TPY would be subject to regulation under the PSD program. Once subject a coal operator is required to apply Best Available Control Technology to suppress dust emissions and must perform rigorous and expensive air modeling exercises to show compliance with the regulations. Depending on the area and the size of the mine the modeling exercises, background monitoring, and reporting requirements may cost as much as $150,000, above and beyond the expenses incurred through time delays and application of BACT. The study goes on to show that even after applying BACT (which for the most part is already done to comply with SMCRA provisions) Appalachian operations would only be able to comply with the statutory particulate matter concentration ceilings if production was cut to approximately 50,000 TPY. It is obvious that this regulation would cause a reduction in economies of scale and drastically increase the cost of coal. A computer analysis conducted by one MARC member showed that compliance with the production restriction would increase the FOB cost of coal at its mines by three hundred percent (three fold).

The absurdity of this proposal only fully comes light when one recognizes that virtually no overall environmental benefit will accrue from such regulation. Particulate matter emissions from surface coal mines, according to a study published in 1980 and conducted by T.S. Evans and D.W. Cooper entitled "An Inventory of Particulate Emissions From Open Sources," contribute only .05% (1/20 of 1%) of the total particulate matter emissions nationwide. Compounding this startling reality is the fact that such emissions are not of a size or chemical composition as to be detrimental to human health and any welfare concerns, such as soiling, and are only a local nuisance which would be better addressed by such local nuisance laws. The regulations will do virtually nothing to improve the environment yet would serve to restrict the industry's production capacity and increase its costs thereby encouraging the importation of significant amounts of coal, oil and electricity.

An Additional example I want to mention relates to the Surface Mining Control and Reclamation Act of 1977. SMCRA requires under Section 515(b)(10)(i) that persons conducting surface coal mining operations "prevent to the extent possible using the Best Technology Currently Available (BTCA), additional contributions of suspended solids to streamflow or runoff outside the permit area" and comply with water quality requirements set by state and federal laws. In implementing this statutory requirement, the September 26, 1983 regulation although removing most of the specific design criteria incorporated in previous regulations, still equate sedimentation ponds to BACT. OSM had initially proposed (July 2, 1981) allowing the use of alternative sediment control measures as BACT in lieu of ponds, provided applicable state and federal water quality and effluent standards were met and disturbances to the hydrologic balance wre minimized. However, OSM did not modify the standard and only sediment ponds are acceptable to OSM. Currently no alternatives are permitted with the extremely limited exception of a handful of experimental sites.

Regulations on sedimentation control offer rigorous challenges to operators. Utilizing sedimentation ponds is often technically ineffective, impractible, or cost prohibitive. A pond can range in cost from about $10,000 to in the hundreds of thousands of dollars and in size from that of a backyard swimming pool to several acres. The requirement is extremely costly and land configuration often hampers effective installation and operation of such structures.

This issue is being researched in an attempt to demonstrate suitable alternatives to ponds which are equally as protective of the environment yet more operationally and cost effective. OSM has granted a multi-year research contract to MARC to investigate alternative sediment and erosion control methods and demonstrate their effectiveness under various field conditions. However, in the interim, assuming the study leads to a change of the current standards, potentially unnecessary compliance costs will be incurred.

Yet another example is steep slope mining common in Central and Southern Appalachia. The absolute requirement of the Surface Mining Act for return to approximate original contour and completely covering the highwall are extremely costly, estimates range from $4.00 to $7.00 per ton. In fact, the National Academy of Sciences (NAS) in studies on Highwall Elimination and Return to Approximate Original Contour and Disposal of Excess Spoil from Coal Mining has found that the law and regulations impose considerable incremental costs above the costs which would be necessary using good engineering practices (GEP) to achieve the same objectives.

By prescribing certain practices, the law and regulations have restricted the use of available technology and restrained the development of new technologies. The NAS observed that by imposing costs on the industry in excess of expenditures necessary to achieve public purposes, the law and regulations have resulted in a reduction of the competitiveness of U.S. coal.

These numerous constraints on U.S. producers has already had a significant debilitating impact on the industry, particularly small operators.

According to statistics released by MSHA, more than 60% of the small coal mines (those producing 100,000 tons per year or less) have closed down since 1977. According to the Energy Information Agency, small companies have suffered a dramatic decline in nationwide production share in recent years. Between 1977 and 1983, companies producing less than 200,000 tons realized an overall production share decline of 35%. Producers in the 200,000 to 500,000 ton range lost nearly 9% of production share, while companies mining 500,000 tons and up realized a 45.3% increase in their percentage of overall production. During this six-year period, nationwide coal production grew by over 13%. Ten years ago there were over 7,000 coal producing companies in the U.S...today there are less than 3,600. There is every reason to believe this trend will continue. With today's continuing tight coalmarket and depressed prices, growing competition from cheap foreign coal will push even more small producers out of the market.

An additional major threat to the competitiveness of the coal industry are proposed tax changes that will impact capital formation.

For the domestic coal industry to remain competitive in an increasingly competitive marketplace, it must continually increase its productivity. Increased productivity does not result from individuals working harder but is a direct reflection of the introduction of new technologies for mining the and the use of improved and more efficient equipment.

The President's recently announced "Tax Proposal for Fairness, Simplicity, and Growth," if enacted in its proposed form would have a particularly adverse impact on the availability of capital in the coal industry to be invested in technologies and equipment to enhance productivity. The increased tax burden of the proposal, approximately $1 billion per year, would both decrease the attractiveness of investing in the coal industry and substantially reduce the availability of internally generated working capital for new investments. As such, it should be expected that productivity in the coal industry, and, as a consequence, the U.S. coal industry's competitiveness both domestically and in foreign markets, will both decline if several elements of the President's tax proposal are enacted.

MARC believes that all four of the areas outlined previously must be addressed. For its part, the coal industry will continue to work to reduce mining costs and improve productivity. The industry needs help, however, in making applicable environmental and safety and health laws more cost effective; in eliminating barriers to increased competition for coal transportation; and, in providing meaningful rate review under the Rail Act.

While such action will hopefully be sufficient for the coal industry to be more competitive in selected markets; realistically, they may not be accomplished in the near term. In the interim, measures could be taken to help offset the unfair advantage of foreign coal producers in U.S. markets. A coal import fee, such as that proposed by Mr. Rahall in H.R. 1905, the "Coal Trade Equalization Act of 1985," provides a reasonable methodology to assure that U.S. coal producers are not unfairly disadvantaged by their compliance with statutory and regulatory requirements to which foreign producers are not held. Accordingly, MARC's board of directors voted to support H.R. 1905.

The final reason for non-competiveness of U.S. producers, the direct subsidization of foreign producers by their governments is more difficult to address. While remedies are available under the trade laws, they have not been effective when applied to other basic industries in the U.S. which have faced significant import competition. MARC encourages the Subcommittee to evaluate this issue and analyze alternatives for addressing it.

In conclusion Mr. Chairman, I would like to underscore the fact that for it is necessary for the Congress to take a hard look at the costs of regulatory compliance and coal transportation and to address those issues for coal to remain competitive in selected markets. MARC appreciates your and this committees efforts to address these problems.

Senator **WARNER**. Thank you.

Mr. Ellerman.

STATEMENT OF A. DENNY ELLERMAN, EXECUTIVE VICE PRESIDENT, NATIONAL COAL ASSOCIATION

Mr. **ELLERMAN**. Mr. Chairman and Senator Rockefeller, my name is Denny Ellerman. I'm executive vice president of the National Coal Association. NCA is an association of the Nation's major coal producers, sellers, and exporters. We represent over half of the national coal production, almost 900 million tons, and 90 percent of U.S. coal exports of about 80 million tons.

I am pleased to be here to present our views on the impact of coal imports on the domestic coal industry. With your permission, Mr. Chairman, I would like to submit my written statement for the record and proceed with summary comments.

Before addressing the subject of coal imports, I would like to thank you also, Mr. Chairman, for holding the record open for 2 weeks to permit those interested parties and the conclusions of the tentative DOE study to make their further comments. From what I've heard, I think we will have ample comments to make.

I also appreciate your remarks concerning the handling of the information or the tentative conclusions that the DOE study has made, and considering them what they are, which is preliminary and tentative.

With respect to coal imports, three points need to be made. First, the United States is and will continue to be a large net exporter of coal to the world. The volume of coal imports into the United States has been, it is, and it will continue to be small relative both to national production and to exports.

Still, we do expect the volume of imports to increase in the coming years. But these imports are different in nature from what we have experienced before. In the past, the small quantities of imported coal have reflected special situations such as distress, spot cargoes, anticipated or actual disruptions of domestic supply that were associated with labor disputes and strikes, or temporary environmental or transportation problems.

The coal imports which are now being brought into the United States do not reflect a special situation but the continuing evolution of a world coal market and in particular the entrance of new coal suppliers onto the scene. This leads me to my second point, which is that the entrance of these new suppliers onto the world coal market, in which the United States is the largest participant, will definitely affect the U.S. coal industry.

However, the principal effect will not be on our domestic markets but on our export opportunities overseas and on those U.S. producers who export to Western Europe and to the Far East. The new productivity capacity which is being created abroad is typically large surface mines where initial capital costs are high but continuing operating costs are low. As a result, these mines will operate at full capacity and their cost of production once the initial capital costs have been sunk are low enough to ensure that they will find a market niche.

It is important to understand that the prices realized may be far below what was expected when the project was started and far from what would be considered a remunerative return on capital investment. But so long as the price received covers more than the operating costs, the coal will be sold at the expense of higher cost producers in the world market.

The United States is a relatively high-cost producer in the world coal market, and in particular in the European and Far Eastern markets where the highest net back returns for new coal producers are to be found. Consequently, the tendency will be for new coal production to displace U.S. coals which are or would be exported to Europe and the Far East.

My third point concerns the correct response to this new competition in the world coal market. Some segments of the American coal industry represented ably by my colleagues at this table believe that a tariff on imported coal would protect U.S. producers from the effects of the entrance onto world coal markets of new low-cost suppliers such as Colombia.

The National Coal Association respectfully disagrees with this view. Although a tariff might protect U.S. producers supplying domestic markets subject to import penetration, it would do so only at the expense of other U.S. producers exporting coal to Western Europe or to the Far East. The coal so obstructed from entering our domestic market would seek an outlet in these other markets, which we as the largest exporter of coal also serve. The result would be an even greater loss of export opportunities from what would otherwise have occurred.

The correct response, as has been noted, is an improvement in the ability of the American coal industry to compete with foreign producers, both abroad and at home. Since 1978, significant increases in productivity have been achieved by the coal industry, both labor and management. Because of the highly competitive nature of the coal industry, these gains in productivity have been fully passed on in the form of lower prices at the mine.

We in the coal industry are still waiting for the reduction of rail rates, which in the presence of adequate competition for the transportation of coal should follow from the gains in productivity which the Staggers Act permitted the railroads to achieve.

Aside from the cost of transporting coal, other elements which make U.S. coals less competitive are the unnecessary cost of overly complex environmental regulations and the value of the dollar. I might also add that the President's recent proposals to reform the tax system will raise the cost of producing coal in the United States and, consequently, further compound the problem of competing with new source coal supplies both here and abroad. Appropriate action on any or all of these areas would help U.S. coals to be even more competitive than they are at present.

That concludes my comments, Mr. Chairman. I'd be pleased to respond to any questions.

[The prepared statement of Mr. Ellerman follows:]

NATIONAL COAL ASSOCIATION

STATEMENT

OF

A. DENNY ELLERMAN
EXECUTIVE VICE PRESIDENT
NATIONAL COAL ASSOCIATION

ON

POTENTIAL IMPACT

OF

COAL IMPORTS

ON

U.S. DOMESTIC COAL PRODUCTION

TO

SUBCOMMITTEE ON
NATURAL RESOURCE DEVELOPMENT & PRODUCTION

COMMITTEE ON ENERGY AND NATURAL RESOURCES

U.S. SENATE

JUNE 6, 1985

Mr. Chairman, my name is A. Denny Ellerman. I am Executive Vice President of the National Coal Association (NCA). NCA is an association of the nation's major coal producers, sellers and exporters. The Association represents over half of the total national coal production of 880 million tons and 90 percent of total U.S. coal exports of 80 million tons.

I am pleased to be here today to have this opportunity to present our views on the impact that coal imports will have on the domestic coal industry. We commend you on your foresight in holding these hearings.

My statement will focus on four points:

o The reasons that coal has been imported in the past and the relationship between coal imports, U.S. coal production and exports;

o A review of the developing world steam coal market and the role of the United States in that market;

o The likely impact on the U.S. coal industry of new coal exporters such as Columbia; and

o What can be done to improve the ability of the U.S. coal industry to compete fully in the growing world steam coal market.

U.S. COAL IMPORTS - WHY?

The United States is an exporter of coal, not an importer. In 1984, 80 million tons of U.S. coal, or almost 10 percent of national production, was exported to Canada, Japan, Europe and to other destinations abroad. In 1984 only 1.3 million tons of foreign steam coal, a volume that is less than one-half of one percent of U.S. national production, was imported. The 1984 relationship between exports, imports and production does not vary from historical patterns.

Until 1974 the volume of coal imports did not exceed 400,000 tons annually. In 1974 imports increased and utilities in the New England area and in the Gulf Coast purchased just over two million tons of foreign coal. The volume of imports quickly dropped and did not reach the two million ton per annum mark again until 1978 when imports peaked at 3 million tons. Imports have averaged just over one million tons per year since 1979, approximating the 1.3 million tons imported in 1984.
(See Figure One.)

A recent Department of Commerce study, "The Potential for U.S. Steam Coal Imports", stated that, under strict assumptions that U.S. utilities maximize fuel cost savings but also minimize risk exposure to foreign coal sources, a maximum of 17 million tons could be imported by U.S. utilities in 1990.

We do not believe that U.S. market penetration by foreign coal will reach that level, but will be only 2 - 4 million tons in 1990, less that one-half of one percent of expected U.S. coal production in that year.

Despite these minimal quantities, one must ask why the world's largest coal producer and exporter imports coal, even if in small quantities.

Throughout the 1970's steam coal was imported in minuscule quantities largely in response to actual or anticipated labor disputes. Imports peaked in 1974 and again in 1978 due to the national miners strikes in those years.

The foreign mined steam coal now being carries more serious implications for the U.S. coal industry. There is nothing complicated about the reason. Foreign coal costs less than domestic coal and there is growing overseas capacity. In limited market areas within the United States, a utility or an industrial plant can import coal at lower cost than the cost of coals of comparable quality available from domestic sources.

THE INTERNATIONAL COAL MARKET

The international coal market has changed significantly over the last ten years. Until the mid 1970's coal trade was limited to metallurgical coal, a trade in which the United States led the market. International steam coal transactions were limited primarily to domestic type, short distance overland movements, i.e. the United States to Canada, intra-European, etc..

The rapid increase in oil prices in 1973 and again in 1979 encouraged greater use of coal and significantly altered the structure of the international coal market by making long distance transportation of relatively low valued steam coal economically attractive. As a result, seaborne steam coal trade nearly doubled between 1979 and 1984 from 58 million to 115 million tons and is expected to increase to more than 150 million tons by 1990.

As the world's largest coal producer, and one with ample excess capacity, the United States participated fully in this expansion of the world steam coal trade, especially since late 1979. In that year, we exported 2.5 million tons of steam coal overseas. Two years later, overseas steam coal exports had expanded by almost fifteen fold to 30 million tons. In the last two years steam coal exports overseas have declined and in 1984 were only 11.4 million tons, a disappointing figure compared with the peak years of 1981 and 1982, but still respectably above the overseas steam coal export figure for 1979.

The sharp increase in steam coal use and trade caught the attention of many, and not just the traditional coal exporters, the U. S., Australia, Canada, Poland and South Africa. Furthermore, forecasts made in the early and middle 1970's indicated that steam coal use and trade would increase even more rapidly. Coal production and export capacity were increased in many countries on the basis of these optimistic expectations. Consequently, current steam coal production and export capacity exceeds steam coal demand by a significant margin. This margin is expected to grow even wider in the next decade as new coal exporters such as Columbia, Venezuela and China enter the market.

Most new steam coal mines coming on line now and which will be available during the next several years are large surface mines which are characterized by high front-end capital costs expected to operate at full capacity, even though the prices realized are disappointing, when compared with expectations when the projects were initiated. I might add that this experience is not one that is foreign to coal producers in the United States. Nor are these mines the only instances of energy supplies being put on the market at prices which cover variable or operating costs but do not provide an adequate return on the now sunk, initial investment of capital.

This new steam coal production capacity is competing with, and replacing, traditional coal suppliers. In Europe, Columbia is competing with South Africa and Poland and, in the absence of market growth, will replace coal from Europe's marginal suppliers, Australia and the United States.

In the Pacific Rim, coal from the USSR, China, Indonesia and now Columbia competes with Australia and Canada and could effectively displace the United States near and mid opportunities to participate in a new and rapidly developing steam coal market.

And, in the United States these new coal suppliers, particularly Columbia, are directly competing with domestic producers in limited market areas.

THE EFFECT ON U.S. COAL PRODUCERS

The U.S. coal industry cannot help but be adversely effected by this new steam coal production capacity; however, the major effect will not be from increased coal imports in our domestic markets, but in the reduction of our export market opportunities overseas.

It has been suggested that the U.S. coal industry could be protected from foreign competition through imposition of a tariff on imported coal. This notion is simply incorrect. A tariff around domestic coal markets will have no effect in protecting those producers who will feel the major impact of this new steam coal production, namely producers selling into overseas steam coal markets. A tariff would only protect some producers supplying those domestic coal markets subject to import competition, but only at the expense of an even greater loss of overseas export markets. This greater loss would occur because the small quantity which would have been imported into the U.S. will seek a market elsewhere--in Europe or the Far East--where U.S. producers are, as explained earlier, the marginal, or least competitive, source of coal supplies.

A tariff or other protectionistic measures do not address the two major short run problems affecting our ability to compete domestically and overseas - the strength of the dollar and the willingness of new source coal producers to enter the world market at the price necessary to penetrate the market.

The United States coal industry, as the marginal supplier will face the full effects of the competition offered by new source coal whether that competition is in domestic markets or in our markets overseas.

WHAT CAN BE DONE?

There are a number of opportunities for the Congress to take positive action that would reduce the cost of U.S coal, effectively limit the penetration of foreign coals in United States markets and, at the same time, enhance our ability to compete in overseas steam coal markets.

o Captive shipper protection included in the Staggers Rail Act, 1980 has effectively been eliminated through regulatory actions of the ICC. Most coal mines, and utilities, are captive to one railroad able to exercise monopoly power and to change excessive rail rates. Legislation now pending before Congress, S. 477 and H.R. 1190 would restore the balance between the need for rail carrier revenue and pricing flexibility and captive shipper protection by addressing four major areas of concern to captive shippers: market dominance, rate reasonableness, revenue adequacy and exemptions.

o The delivered cost of U.S. coal can be reduced by stimulating competition in coal transportation through legislation providing eminent domain authority for coal slurry pipelines;

o Inland waterway transportation costs can be reduced if Congress authorizes improvements necessary to increase both the capacity and efficiency of our waterway system.

o The delivered cost of U.S. coals at coastal utilities can be made more competitive by revision of the Jones Act to allow delivery of U.S. coal in lower cost foreign flag carriers.

Currently markets in Hawaii and Puerto Rico are precluded from U.S. coal due to the requirements that U.S. coal must be shipped on U.S. flag vessels. U.S. coals at utilities in the East and Gulf coasts is more expensive than foreign coal for the same reason.

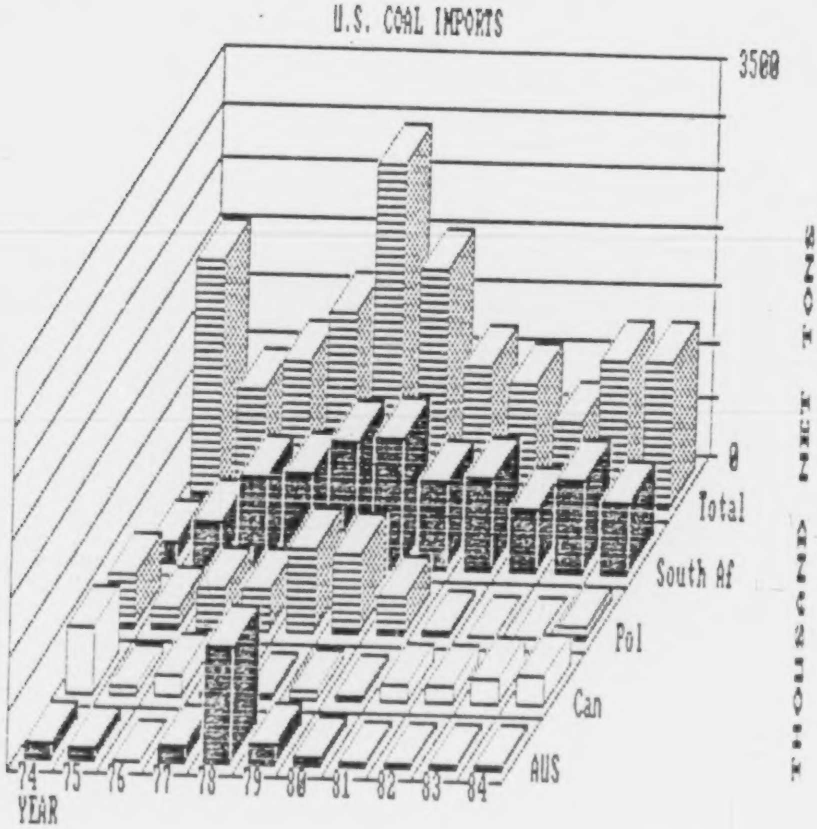
o Finally, the Congress must carefully consider the effects of proposed tax changes on the competitiveness of the coal industry, specifically, the proposals to eliminate percentage depletion and increase the black lung excise tax.

CONCLUSION

In conclusion Mr. Chairman, the minimal increase in coal imports expected over the next several years will not have a large impact on the U.S. coal industry. However, coal from lower cost sources now entering the world market will reduce the United States potential to participate in the world steam coal market unless actions are taken to make our coals more competitive.

We have made several suggestions of ways that this can be done and urge your early attention to these actions.

I would be pleased to answer any questions you might have.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Senator WARNER. What's your view about the future activities of the Export-Import Bank with respect to making loans that would enable mines such as this to come into the productive competitive world?

Mr. ELLERMAN. It's an area that bears looking into. I listened to much of the discussion this morning and learned a great deal from it myself. Our position rests essentially on a belief that protectionist measures would not aid the industry. I have explained what we believe with respect to the U.S. industry.

Senator WARNER. I can understand your position on the protectionist measures. I would be interested to receive, and I'll ask you now, your views on the Export-Import Bank with respect to helping start up mines such as the one we've got in Colombia.

Mr. ELLERMAN. I'd be pleased to respond to those for the record.

Senator WARNER. Mr. Gerkin, likewise if you would add to your views.

Senator Rockefeller?

I thank this panel very much.

Now we will hear from Mr. Kiddoo, president, Exxon Coal International; Mr. Glenn Schleede, president, New England Energy; and Mr. Forrest Hill, president of Hill and Associates.

Now, Mr. President, we will hear from you, and may I say that nothing I have heard or have learned thus far indicates that your company has done anything outside the permissive framework of laws and otherwise structured nationally or internationally, the capital investment and the like.

STATEMENT OF RICHARD C. KIDDOO, PRESIDENT, EXXON COAL INTERNATIONAL

Mr. KIDDOO. Thank you, Mr. Chairman. I find that reassuring. There seemed to be some of the discussion this morning that made us appear somewhat less than popular.

Senator WARNER. Well, I wouldn't judge your popularity, but as a lawyer I sat and sifted through what we have heard here this morning and we're anxious to get your perspective.

Mr. KIDDOO. I appreciate that.

Senator WARNER. Take such time as you need.

Mr. KIDDOO. Well, I'm going to go as brief a summary as I can. You do have a text of a full statement of mine, which I presume will be admitted into the record.

Senator WARNER. Which will be admitted to the record.

Mr. KIDDOO. Mr. Chairman, my company is responsible for international marketing of most coals produced and traded by Exxon Corp., and affiliates throughout the world. While I intend to concentrate my testimony on our Colombian project, as I am sure the committee is principally interested, I believe it's important to put U.S. coal imports, present and future, into some kind of perspective. There's been a good deal of discussion of that issue here this morning.

U.S. production of steam coal has grown by some 70 percent, from about 460 million tons in 1973 to about 800 million tons in 1984, a growth of about 70 percent over a decade, and it is projected in current Department of Energy forecasts to increase by another 40 percent to about 1.1 billion tons per year over the next decade.

In 1985, the domestic consumption of coal in the United States is generally expected to continue to rise, even though exports will probably continue to fall. The loss of export markets for U.S. steam coal from over 40 million tons in 1982 to 24 million tons in 1984, and half of that 24 million tons to Canada, and a probable further drop in 1985 in exports of steam coal is a function of prices which are not competitive with other major coal-exporting nations, principally Australia, Poland, and South Africa.

The impact of Colombian coal on that loss of export market is negligible, since our exports had not even started until earlier in 1985, and will be on a small scale this year. The United States imported about 1 million tons of coal, as we've heard this morning, in 1984, and those imports are unlikely to be changed in 1985.

This means that in 1984 and 1985 imports of coal into the United States represent between one and two-tenths of 1 percent of the coal produced and consumed in this country. And I've seen no responsible forecasts that suggest that imports are likely to exceed the order of magnitude of 1 percent of U.S. production by the end of this decade.

In spite of its competitive weakness in the steam coal export market, the United States continues to be a strong competitor in world markets for metallurgical and exported in 1984 about 57 million tons of metallurgical coal, about twice steam coal exports. Now this represented about one-third of worldwide international trade in metallurgical coal in that year.

One of the limitations that's frequently cited for the available market for U.S. metallurgical coal exports has been the subsidization of indigenous coal production in certain West European countries. There has been a good deal of discussion in recent weeks within the European Economic Community and its member countries about EEC legislative proposals to reduce and eliminate subsidies for indigenous coal production, including metallurgical coal.

Western European countries have already made progress in reducing uneconomic production of indigenous coal. The prolonged strike in the United Kingdom centered around the closure of uneconomic mines, and the Government of that nation has repeatedly expressed its dedication to reduce the deficits in its nationalized coal industry.

Since 1970, West German coal production has fallen from 128 million tons to below 94 million tons, French from 41 million tons to 19 million tons, and Belgian from 12 million tons to 7 million tons. The continued phaseout of uneconomic production is very important principally to U.S. metallurgical coal exporters.

It would be unfortunate and untimely if the United States through the introduction of protectionist action on coal imports were to serve up a handy example to prosubsidy forces in European coal producing nations.

Now turning to our Colombian project, we expect to be producing about 16.5 million short tons of steam coal annually by the end of this decade. That's equivalent to the 15 million metric tons that you've heard this morning. We expect that by far the largest portion of this production will be sold in Europe, where there is a substantial and growing market—last year 69 million tons of imported steam coal in Western Europe and we project in the range of 90 to 100 million tons of import demand for steam coal in Europe by 1990—and where our coal is likely to be competitive with the strongest competitors in the world market.

Our own estimate is that there is a reasonable potential for some 3 million tons of Colombian or other foreign coal in the United States at coastal locations remote from domestic coal fields where foreign quality fits the equipment design.

The sales of Colombian coal are unlikely to be as attractive in areas of the United States near the U.S. coalfields and sales to the growing European market are always likely to yield higher prices to Colombian than sales into, for example, even coastal locations in the Middle Atlantic States.

I have seen press reports and testimony has been given here and in the House of Representatives that foreign coal sales, primarily Colombian, could reach 8 to 10 million tons per year by the end of this decade. That's about the middle range of the forecasts that have been presented by others.

Our studies suggest a substantially smaller figure of about 3 million tons by 1990, but even if the other forecasts were accurate, imports would only reach a level of about 1 percent of U.S. production, and that's hardly a level, I suggest, to suggest a serious threat to the U.S. industry or national security concern.

Colombia is well positioned to serve several coastal areas in the United States with economical coal supplies, as we have heard this morning. At current rail rates, it costs about $18 to $20 per short ton to move coal from Kentucky or West Virginia to Florida, while for coastal power stations in Florida shipping cost is only about $6 per short ton from our port in Colombia. It also costs about $18 to $20 per short ton to haul coal from the Appalachian area to Boston, while marine transportation from Colombia will probably cost about $8 per short ton.

With a much shorter haul and at least comparable producing economics, Colombia should be a more attractive source than other major coal exporters in Poland, South Africa, or Australia. As evidence of this, utility companies in Florida, Texas, and New England have either contracted or entered serious negotiations for Colombian coal.

In two recent tenders for supply to Florida utilities, all other foreign bidders were eliminated in early screening, while Colombian coal was contracted by one and remains on the list of finalists for the other.

I would now like to spend a couple of minutes on the project itself. Exxon and the Colombian Government coal company, Carbocol, are engaged in the joint development of a large high quality steam coal resource in the La Guajira Peninsula on the northernmost tip of South America. The development of this project commenced almost a decade ago, when the Colombian Government sought partners from Europe, Japan, and America to join them.

As the result of competitive bid, Exxon was awarded its 50 percent interest and role as operator in this venture. The attraction of this resource to Exxon and to other bidders lay in the large and readily accessible reserve of thick seams of low sulfur, high calorific value steam coal. From the start, Exxon's development plans have been based on the same high standards of environmental protection, safety, and health as has characterized our operations in the United States.

In the area of environmental protection standards, provision for restoration of the topography is comparable to that which would be made if the project were located in the United States. We are especially proud that in our first full year of mining operation our safety record has been substantially better than the average of bituminous coal surface mines in the United States.

We do have some way to go to match the performance of our award-winning Exxon mines in Wyoming, where we have not sustained a single lost time accident in 3 years. In 1983, the Mine Safety and Health Administration and the American Mining Congress recognized our Exxon Rawhide Mine in Wyoming as the safest surface mine in the Nation, and in 1984 these mines established an all-time National Safety Council record for safe operation.

The production of Cerrejon coal commenced last year, and the first coal was shipped early this year. Cerrejon expects to export about 2.8 million short tons this year, and so far in 1985 shipments have been made to about 10 countries in the European and Mediterranean area, while one customer in the United States has actually received coal from the Cerrejon project.

As you can appreciate, the construction of the project, including mine, railroad, and a totally new seaport has been a very large undertaking. It's significant to note—and there's been some discussion of it this morning—that the American prime contractor and the partners have already purchased some $500 million in U.S.-sourced equipment and service, and that figure will grow substantially by the time of completion.

Replacement spare parts and continuing services will contribute a lot more ongoing revenue and jobs for U.S. suppliers. Far from representing a drain on U.S. trade at any likely import level of Colombian coal, this project is a substantial favorable contributor to the U.S. trade balance.

Senator Warner. In other words, quite candidly, you're saying a net contributor?

Mr. Kiddoo. Yes, sir; you will recall that I said that most of the coal would be exported to other parts of the world where the U.S. steam coal exports before Colombia have largely lost their market position. The principal competition for those markets comes from Poland, South Africa, and Australia, as has been indicated, and the U.S. source equipment and service revenue from those coals is very small.

Now earlier in my testimony I pointed out and I have emphasized that Colombia is the most competitive source of coal for import into the United States given its location, its economics and its coal quality. Thus, any action that the United States were to take to restrict coal imports represents punitive action against only one foreign nation, Colombia. Such an action would cause a profoundly negative reaction in Colombia because of the importance that that government and the national leaders of that country place on the success of the Cerrejon project.

I do not believe it's necessary for me to take your time describing the obvious importance to the United States of harmonious Colombian-United States relations in political affairs as well as economic. But on the economic side, United States-Colombian trade has been strongly positive, over $4 billion in the U.S. favor since 1980. And last year, trade with the totality of Latin American nations for the United States was negative in the amount of about $17 billion, while it was positive with Colombia.

In conclusion, we don't believe that action to restrict imports of coal into the United States is necessary or desirable in view of the very limited scope for such imports in the context of U.S coal demand and the U.S. position as a substantial net coal exporter. Such restrictions could rebound on U.S. interests in the form of new or, I submit, continued restriction on imports of U.S. coal.

Over and above the higher energy cost that U.S. consumers would have to pay, such restrictions would also impact significantly on only one nation—not South Africa, not Poland, but Colombia, a democratic Western Hemisphere nation with important and friendly ties to the United States and a nation which regularly buys a lot more U.S. goods than it covers with exports to this country.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Kiddoo follows:]

Statement of Richard C. Kiddoo,
President of Exxon Coal International, before the
Subcommittee on Natural Resources Development and Production
Committee on Energy and Natural Resources
United States Senate
June 6, 1985

Introduction

Mr. Chairman, my name is Richard Kiddoo, and I am President of Exxon Coal International. My company is responsible for international marketing of most coals produced and traded by Exxon Corporation's worldwide affiliates.

The subcommittee has invited testimony on the importation of foreign coals into the United States and its effects on America's economic and trade interests. Perhaps the most useful contribution I can make to deliberation on this issue is to discuss my company's Cerrejon North Block Coal Project in the Republic of Colombia. The Cerrejon project is being developed in association with the government of that nation.

I will start by discussing U.S. coal production and imports as well as international steam coal trade. Then, I will describe Exxon's coal business, both in the United States and in Colombia. Next, I will cover the marketing of Cerrejon coal. Last, I will comment on U.S. policy dealing with international coal trade, including importation of foreign coals into this country.

I believe the facts will show that maintaining free international trade in coal promotes the national interest of the United States. First, an American free trade policy fosters the continued growth in world coal trade, in which the U.S. is a major exporter. Such a policy also bolsters efforts to end protectionist practices now remaining in Europe and the Far East. Second, free coal trade supports the efforts of the United States and its allies to develop low cost alternative energy supplies. Third, continued good relations with Colombia help the U.S. maintain a favorable bilateral trade balance and perpetuate substantial levels of exports to the Cerrejon project from all across America.

U.S. Coal Production and Imports

I believe that it is important to put U.S. coal production and imports into perspective. U.S. steam coal production has increased considerably since the first oil crisis, from approximately 460 million short tons in 1973 to about 790 million tons in 1984, or by more than 70%. Further, the Department of Energy estimates that national steam coal production will climb another 40% by 1995 to about 1.1 billion tons. In other words, the U.S. steam coal industry is in the midst of a major expansion.

Last year, steam coal imports amounted to only 1.3 million tons or about 0.16 % of production. Owing to the logistics advantages of U.S. producers in most areas, it is highly improbable that U.S. steam coal imports will exceed even 1% of domestic production in the foreseeable future. I believe there is a general consensus that the U.S. has capability to produce large additional quantities of steam coal on short notice. Thus, even a high-side estimate of coal imports cannot be considered to pose a threat to the supply security of U.S. consumers.

International Market

In 1979 total demand for seaborne-transported steam coal traded internationally in the Free World was approximately 93 million short tons annually, about two-thirds representing imports into Western European countries. Demand increased to about 110 million tons in 1980, held at this level through 1982, fell to 101 million tons in 1983 with the worldwide recession, and recovered to 121 million tons in 1984.

Supply to the international steam market was disrupted from 1979 to 1981 as Polish exports dropped by 13 million tons per year. However, Polish coal exports recovered gradually so that by 1984 that country had regained its 1979 market sales.

The effect of these supply/demand shifts on U.S. steam coal exports was dramatic. For example, in Europe demand for U.S. coal increased from about 3 million short tons in 1979 to 29 million by 1981. Confronting an increase in total demand and the reduction in supplies from Poland, Europe turned to the abundant, although expensive supplies from Appalachia. However, the sellers market of 1981-1982 turned into a buyers market in 1983-1984. Total demand was down because of the recession. Poland was reentering the market. South Africa and Australia began to move larger volumes. In balancing supply and demand, the most competitively priced coals clearly had the edge. Accordingly, Europe reduced its steam coal purchases from the U.S. to about 10 million tons in 1984. Cerrejon coal has not been responsible for the erosion of U.S. steam coal exports since regular shipments from the Colombian project only began this year.

We expect the total international steam coal market to reach about 200 million short tons by 1990, based on approved power plant construction plans and expected expansion of industrial coal usage. European demand should represent about 110 million tons while Far Eastern demand should account for most of the rest. Three countries now are competing for the major share of the demand growth increment: Australia, South Africa and Colombia. These countries have large volumes of additional coal that can be produced at competitive costs. Poland seems unlikely to expand its sales significantly beyond recovery to earlier levels. U.S. coal is burdened with substantial inland transportation costs and, for the time being at least, with a strong dollar. Today, in Western Europe, U.S. steam coal is typically priced as much as $10/ton (or more than 20%) higher than some of the other major foreign coal producers.

While the U.S. is currently weak competitively in international steam coal markets, it continues to be a strong competitor in world markets for metallurgical, or coking coal. Last year, the United States exported about 57 million short tons, or nearly 60 % of the entire domestic production of this premium product. U.S. exports accounted for about one-third of the total world seaborne met coal trade.

Exxon's Coal Business in the U.S.

Exxon decided in the early 1960's to enter the coal business and began acquiring reserves in the mid-1960's. Since mining the first coal in 1970, Exxon Coal USA has grown to the sixth largest coal producer in the United States, producing over 23 million tons of steam coal last year for use in electric utility boilers. Exxon operates two large surface mines in the Powder River Basin of Wyoming and two large underground mines in Illinois. In all of these projects Exxon instituted, at the outset, high standards of performance in environmental protection, health, safety, and productivity. As an example, in 1983 the Mine Safety Health Administration and the American Mining Congress presented the "Sentinels of Safety" award to our Rawhide Mine as the safest surface coal mine in the nation. By yearend 1984 Exxon's two Wyoming mines established an all time National Safety Council record for the bituminous and lignite industry by operating over two and one-half million man hours during a three year period without a disabling injury.

Exxon is actively seeking opportunities to increase domestic production. Through responsiveness to customer's needs, Exxon has developed a reputation as a reliable, competitive, and fair supplier. Exxon supplies coal to about 15-20 customers, principally in the mid-section of the country.

Not all of Exxon's coal mining ventures have met with success. After investing substantial sums in a mine in Wayne County, West Virginia, Exxon and its partner were forced to close and mothball the operation in 1983 at an early stage of development, since the market did not develop as envisioned at targeted inland U.S. locations.

Exxon's Coal Business in Colombia

After the oil embargo in 1973, Exxon intensified its efforts to identify, compete for, and develop alternative energy supplies. For some time Colombia had known that its northern area contained large reserves of high quality coal in thick, surface-mineable seams close to the Caribbean Sea. In 1975 Colombia opened international bids on the Cerrejon North Block and another block to the south. Seventeen international companies from the U.S., Europe and Japan were invited to compete. After success in competitive bidding, Exxon's Colombian affiliate, Intercor, signed a long term association contract to explore, develop, and mine the Cerrejon North Block. Exploration was completed in 1980. Over the past 5 years Exxon, the Colombian Government, and the prime contractor, Morrison-Knudsen Company of Boise, Idaho, have created a mine, railroad, and deepwater port in the sparsely populated Guajira State in Colombia. A 23 year production phase commences in 1986. The contract between Colombia and Exxon is basically a 50/50 joint venture with Exxon's Intercor affiliate functioning as project operator. The Cerrejon mine will be operated with the same demanding environmental and safety standards as Exxon's U.S. mines. Regarding environmental protection standards, topography will be restored consistent with U.S. practice. Cerrejon's safety performance in both construction and initial mining has been significantly better than that of the average of U.S. bituminous coal and lignite surface mines.

The Cerrejon mine is expected to produce about 2.8 million short tons of coal this year, rising to 16.5 million tons annually by 1989. The construction of this world class mine and export facility has not come cheaply. The project is costing in excess of $3 billion. The project will supply the energy equivalent of about 185 thousand barrels a day of oil by 1989, enough to supply the electricity needs of several Western European capitals. For Colombia, coal export revenues could rival those of coffee. The U.S. already has sold or received commitments for over $500 million in goods and services for the Cerrejon North Block project. Virtually every state in the continental U.S. has exported to Cerrejon. For its own part, Exxon will have available a new, large, profitable non-petroleum energy resource.

Marketing of Cerrejon Coal into Europe, Far East

We expect that Europe will be Cerrejon's prime market and purchase about two-third's of the output. We anticipate that the Far East, Middle East, Caribbean Basin, Latin America and United States will buy the remaining one-third. So far in 1985, Cerrejon has shipped coal to customers in about 10 countries in the European and Mediterranean area and only to one customer in America. Cerrejon coal will compete in its markets against local, U.S., Australian, Polish, South African, Canadian, and Chinese coal. Cerrejon coal will establish itself in diverse worldwide markets only to the extent that it offers some palpable benefit to the customer: competitive price, supply diversification, and/or superior quality.

Marketing of Cerrejon Coal into the U.S.

We hope to be able to offer one or more of these benefits to a number of U.S. consumers. However, in the vast majority of market areas in the U.S., Cerrejon coal is not likely to be competitive with domestic coal, owing primarily to cost disadvantages in transportation and handling. Thus, realistic customer interest in Cerrejon coal has occurred only in Florida, New England, and the Gulf Coast --- which all are remote from the major domestic coal fields.

In these areas Cerrejon holds the promise of offering transportation and handling cost savings to utilities and industrial consumers. For example, it costs about $18-20/short-ton to move coal from Kentucky or West Virginia to Florida, while the shipping costs for Cerrejon coal to coastal locations in Florida is only about $6/ton. It also costs about $18-20/ton to haul coal from the Appalachian area to Boston, while marine transportation from Colombia will cost about $8/ton. With the much longer haul from Poland, South Africa, or Australia, Colombia should be a more attractive source for the U.S. than these other major coal exporters.

As evidence of Colombia's competitive advantage in certain U.S. markets, utility companies in Florida, Texas, and New England have either contracted or entered serious negotiations for Colombian coal. In two recent tenders for supply to Florida utilities, several other foreign bidders were eliminated in early screening, while Colombian coal was contracted by one, and remains on the list of finalists for the other.

From this I believe you can see that any action by the U.S. to prevent coal imports will really represent punitive action against only one nation, Colombia. Such an action could cause a profoundly negative reaction in Colombia because of the importance that its government and leaders place on the success of the Cerrejon project. President Betancur of the Republic of Colombia recently emphasized the importance of the Cerrejon project to his nation. He stated, "This is an example of useful foreign investment: 'useful' implies that it works with Colombian capital instead of pushing it aside, that it brings new technology to Colombia, that it creates employment and generates foreign currency for the external sector of the economy. We wish to associate ourselves with this type of foreign investment."

Diversified Energy Supplies

Various U.S. administrations have consistently encouraged U.S. companies to develop diversified, economical energy supplies. Our friends and allies, singly and through the International Energy Agency, have worked with America to develop energy alternatives around the world. The Cerrejon coal project is precisely the kind of low cost, alternative energy resource that meets the test of U.S. and world need.

Today, the United States and the whole world are benefitting from the expansion of low cost, secure energy production capacity and from energy conservation. Overall energy prices are down, stimulating the world economy. Energy supply is more plentiful, enhancing our national security.

Barriers to Coal Exports

The United States is a prime beneficiary of free international trade in coal since it is a large net exporter. Last year, the U.S. exported 24 million short tons of steam coal and 57 million of metallurgical coal while importing about one million tons of coal.

One of the key factors often cited as limiting U.S. exports of metallurgical coal has been the subsidy of local coal production in certain West European countries. There has been a good deal of discussion within recent weeks in the European Economic Community and its member countries about EEC proposals to reduce and eliminate subsidies for indigenous coal production, including metallurgical coal. The EEC and non-coal producing members want to eliminate these subsidies in spite of resistance from within coal producing member countries.

Western European countries have already made progress in reducing uneconomic production of indigenous coal. The prolonged strike in the United Kingdom centered around the closure of uneconomic mines, and the British Government has repeatedly expressed dedication to reduce deficits in its nationalized coal industry. Since 1970, West German coal production has fallen from 128 million short tons to 94 million; French production from 41 to 19 million tons; and Belgian production from 12 to 7 million tons. Continuing phase out of uneconomic European coal production remains vitally important to U.S. metallurgical coal exporters.

We believe it is clearly in the best interest of the United States to encourage European and Far Eastern governments to reduce and eliminate the remaining barriers to international free trade in coal. Enactment of protectionist legislation on U.S. coal imports would be unfortunate and untimely, only bolstering the pro-subsidy, anti-import forces in European coal producing nations.

Restrictions on U.S. Coal Imports

One of the principal objectives of this hearing is to determine whether the U.S. should abandon its historical free trade policy on coal in an endeavor to protect some domestic producers. We believe that such a policy reversal would have detrimental effects on U.S. interests. We further believe that some of the statements made in Washington about Cerrejon coal are not well founded. I would like to elaborate on both of these points.

As I have already emphasized, the U.S. is a major net exporter of coal. The enactment of American legislation to protect domestic producers from foreign competition would send the wrong signal abroad. In major coal importing nations governments are striving to end remaining local protectionist practice. The advent of American protectionist legislation could frustrate their efforts, thereby reducing growth in U.S. coal exports, both steam and metallurgical.

Also, free coal trade has no detrimental effects on national security. Imports are highly unlikely to exceed 1 % of demand.

The enactment of protectionist legislation in the U.S. would also retard the efforts of the U.S. and other countries from developing low cost, diverse and secure energy supplies. Cerrejon coal will help control energy costs and provide added supply security in its primary market in Europe and others in the Far East, Middle East, Caribbean, and Latin America. Cerrejon coal will also provide savings for some U.S. consumers in areas located remote from U.S. coal fields, such as Florida, New England and parts of the U.S. Gulf Coast. Furthermore, the Cerrejon project is purchasing goods and services from virtually every state in the country. On the other hand, the benefits of coal import restrictions would accrue only to certain U.S. coal producing areas.

American protectionist legislation would be regarded in Colombia as a punitive action directed solely against that country. Cooperative relations between the two countries could be damaged to the detriment of American economic, political and security interests. On the economic front, American legislation restricting coal imports could jeopardize the favorable trade balance that the U.S. enjoys with Colombia. In 1980-1984 the U.S. had more than a $4.3 billion trade surplus with Colombia. Thus far, U.S. companies have sold more than $500 million in mining and transportation equipment and services to the Cerrejon project from virtually every state in the continental U.S. The outlook is for continuing substantial U.S. sales.

Congress is considering two forms of legislation to curb coal imports. A House bill would impose an $8/ton duty on coal imports. Since $8 represents some 15-20 % of the current landed cost of imported coal, the measure would likely block most coal imports and increase the electricity costs of American consumers in areas remote from domestic coal fields. A Senate bill, S. 946, would prohibit the award of competitive federal coal leases to any company producing coal abroad and importing it into the United States. The Senate bill would punish companies like mine that extract and market coal both domestically and internationally.

Denying Exxon and other coal producers the right to participate in competitive federal coal lease auctions would be anti-competitive and tend to reduce the availability of domestic energy supplies, thus working against the interests of the U.S. consumer. Starting less than 15 years ago, Exxon Coal USA has built new coal mines to become the nation's sixth largest coal producer, with about 23 million tons of output last year. Since its inception, Exxon Coal USA has made major contributions to increase national coal output, create jobs, boost industry productivity, institute comprehensive environmental measures and elevate safety standards. In our judgement, maintaining the right of our company to bid on competitive coal leases is in the national interest. S. 946 would deprive us of that right, hurt the U.S. consumer, and hobble traditional, American-backed efforts to increase the production of low cost, secure energy supplies around the world.

S. 946 would not stop foreign nations from developing attractive coal export projects, but it certainly would discourage American coal companies from competing for the privilege of participating in them. As a fallout, U.S. suppliers of mining equipment and services would find their business curtailed. In the process, the U.S. trade balance would suffer, the nation's commerce would decline and Americans would lose jobs.

As I mentioned earlier, some statements regarding Cerrejon are inaccurate. It is alleged that significant cost differentials between U.S. producers and Cerrejon result largely from government subsidies or from lax environmental, health and safety standards abroad. However, Cerrejon derives its competitive edge primarily from the quality of the resource, its favorable location, and the high efficiency of its mining and transportation system. Exxon receives no government subsidies and operates the mine as a free market enterprise. The Colombian Government is properly contributing its 50 % share of capital and operating costs to the project and is receiving its 50 % entitlement of coal production.

Closing Thoughts

In an effort to reduce dependence on costly oil imports, the United States and many other countries are in the midst of a major expansion of steam coal usage and production. Governments in Europe and the Far East have phased down restrictions against imported coal, and the European Community is trying to eliminate them entirely. America can gain far more by encouraging these efforts than by reversing the worldwide trend to free trade in coal and enacting protectionist legislation. Likewise, America has a strong interest in preserving its large trade advantages with Colombia and the Cerrejon project.

Exxon Coal International
June 6, 1985
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Senator WARNER. Would you be willing to give us the ballpark figures as to what you can put a ton of coal on the docks in the Hampton Roads area of Virginia would be?

Mr. KIDDOO. May I answer that, and if you still want to press that question when I'm finished, I'll do my best directly? In Hampton Roads, VA, coal is being exported to Europe and I made the statement earlier that it appears to me quite clear that it will always be in our interest to sell coal to Europe rather than to the Middle Atlantic States in the United States.

Let's say that coal is worth $45 a ton in north Europe. That means with freight that the market for coal is about $38 in Hampton Roads. It costs a couple dollars more to ship that coal from Colombia to Europe. So if we say it's $45 minus $9 instead of $7, it's $36 in Colombia.

Now for us to compete into Hampton Roads, we would have to sell at a $38 kind of price in Hampton Roads. Implicit in that is a netback of, say, $32 or $33 in Colombia.

Senator WARNER. I'm just going to have to interrupt. I'm so taken by your testimony—I say that in all sincerity—I'm about to miss a vote. So we will adjourn the hearing until my colleague, Mr. Rockefeller, comes back in and then I'd like to pick up on that question.

[A brief recess was taken.]

Senator ROCKEFELLER [presiding]. I apologize. We had a vote and I passed Senator Warner on the way over there. Maybe, Mr. Schleede, it would be good if we proceeded. I understand that Mr. Warner was talking with Mr. Kiddoo, but it might be good if you proceeded. It could get a little complicated down there on these Nicaraguan votes.

Mr. KIDDOO. Well, I had concluded my statement, Senator.

Senator ROCKEFELLER. Could you proceed, please, sir?

STATEMENT OF GLENN R. SCHLEEDE, PRESIDENT, NEW ENGLAND ENERGY, INC., ON BEHALF OF NEW ENGLAND ELECTRIC SYSTEM

Mr. SCHLEEDE. Thank you very much, sir.

My name is Glenn Schleede and I work for the New England Electric System, which serves customers in more than 1.1 million homes, businesses and institutions in Massachusetts, Rhode Island, and New Hampshire. I have a formal statement that I'd like to submit for the record, sir, and that statement merely explains our company's interest in coal and coal imports.

Second, it urges you not to support the adoption of protectionist measures, all of which, of course, would add to the cost of electricity for millions of Americans, if you did support them. Third, it explains why we believe an import tax or other protectionist measure would not be effective. And, finally, that statement identifies steps that we believe could be taken to make U.S. coal more competitive in both United States and foreign markets.

Having submitted that statement and listened to the testimony this morning, I believe it would be most productive if I merely make a few brief summary points. First, our company now buys about 3.5 million tons of coal per year. Coal now supplies 50 percent of our total energy needs.

We get most of that coal from your State of West Virginia, from Senator Warner's State of Virginia, and from Pennsylvania. We ship that coal by rail to ports in Philadelphia, Baltimore, Newport News, and Norfolk. We load it in barges or on our new coal-fired, coal-carrying, self-unloading ship and take it up to our generating plants in New England. The coal travels about 800 miles in total.

Last year we made our first purchase of coal from Canada. That cargo of coal was mined up near Elkford, British Columbia, shipped by rail 780 miles westward to Vancouver, loaded aboard a ship that sailed 8,000 miles down the west coast of the United States and Mexico, through the Panama and the Caribbean, up the east coast to our plants. In total, it traveled 8,780 miles, or 11 times the distance our coal travels from Appalachia.

The delivered cost of that coal from British Columbia was slightly less than what we paid for spot coal purchased at the time from Appalachia. We have no preference for foreign coal. We have an obligation, in fact a legal obligation, to our customers to buy coal meeting our needs at the lowest, practical, delivered cost. That is what is happening when we buy coal from outside the United States.

The third point I wanted to make, and perhaps the most important one I could make today, is—relates to the reasons why the coal from Canada and other countries can compete effectively with coal in our own back yard. The reasons cited in H.R. 1905, the House bill that would establish an import tax, have relatively little to do with the competitiveness, I believe.

Instead, the reasons really are in many cases, the superior, geologic conditions—that is, the thicker seams and lower overburdened coal ratios—highly efficient mining, highly efficient facilities for loading coal on trains. That coal we purchased from British Columbia, they can load 108 100-ton cars in slightly less than 4 hours. They have highly efficient rail transport. It moves that coal 780 miles to Vancouver on a unit train in 48 hours. They load it and unload it in motion, the train literally doesn't stop.

That, of course, results in much lower rates per ton. And in my formal statement you'll see some specific cases where the efficiencies, how they compare with U.S. situations. It takes 5 or 6 days to get our coal from Appalachia to east coast ports, for example.

The final reason why the coal is competitive is foreign suppliers can use foreign flagships that are much lower in cost.

And the fourth point I wanted to make is that if Congress really wishes to do something to help U.S. coal be more competitive in U.S. and in foreign markets, the place to start is doing something about the excessive rail rates that are pricing U.S. coal out of the markets here and abroad.

I might mention it's not just U.S. coal competing against foreign coal; it's important to keep in mind what's happening in oil and natural gas supplies and prices. For example, we were paying $28.50 a barrel for residual oil in the third week of February this year. Two weeks ago we bought better than half a million barrels of oil at $20, a little less than $20.50. That's $8 per barrel less. Oil is now much closer in price to coal than it was just a few weeks ago.

The final point that I wanted to make, since Secretary Vaughan has introduced his Department's now infamous study into the record, that study is—it's a rather strange document and it deserves a whole lot of comment. The one that I think would make it most clear—and I wish Chairman Warner were here—one that I think is most important would be from his point of view, too, and perhaps yours, that it's sort of looking at the wrong end of the telescope when it tries to identify who is captive.

Mr. Vaughan's study could clearly conclude that we are not captive since we can choose among three rail systems, plus foreign suppliers. He ignores the fact that the producers are often captive. We've got three railroads that we deal with. Our highest rates by far are on Norfolk Southern. Our rates there are 228 percent of—since I'm just talking about Senator Warner's railroad—

Senator **Warner** [presiding]. Which of two?

Mr. **Schleede**. I was just about to comment, sir, on Secretary Vaughan's report, because there's one major weakness in there that I think is particularly important, and I can illustrate with an example directly involving your State.

We ship coal on three different eastern railroads, plus we can buy foreign coal, so we are not exactly captive. However, I think he's looking at the wrong place when he's trying to identify who is captive. He is forgetting about the coal producer and focusing on us as a shipper.

I was about to explain that our rates on Norfolk Southern are the highest of any rates we pay to eastern railroads. Those rates are 228 percent of variable cost. Our estimates are that their return on equity on our movements are 48 percent before tax and 26 percent after tax. We have been unable to get Norfolk Southern to reduce their rates to levels where they can compete with other eastern railroads even.

That means that suppliers in your State are having a very difficult time competing, and those are the ones that I think Mr. Vaughan ought to focus on. Those are the producers that I think he should focus on to find out who is really captive and who has no alternative and who cannot compete for our business. Now in this case the beneficiaries happen to be Senator Rockfeller's constituents because we have shifted 400,000 tons of coal off of Norfolk Southern onto the Chessie System because of the lower rates we have there.

But the point I want to make is one of the major weaknesses of his report is that he's just looking at the wrong end of the railroad to find out who is really captive. That really concludes the comments I wanted to make. I'll be glad to answer any questions you might have.

[The prepared statement of Mr. Schleede follows:]

A STATEMENT FOR

THE OVERSIGHT HEARING ON THE IMPACT OF COAL IMPORTS ON THE DOMESTIC COAL INDUSTRY

CONDUCTED BY

THE SUBCOMMITTEE ON NATURAL RESOURCES DEVELOPMENT AND PRODUCTION

OF

THE COMMITTEE ON ENERGY AND NATURAL RESOURCES

U.S. SENATE

BY

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NEW ENGLAND ENERGY INCORPORATED,
THE FUEL AND TRANSPORTATION SUBSIDIARY OF THE
NEW ENGLAND ELECTRIC SYSTEM,
WESTBOROUGH, MASS.

WASHINGTON, D.C.
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STATEMENT FOR THE HEARINGS ON THE IMPACT OF COAL IMPORTS ON THE DOMESTIC COAL INDUSTRY HELD BY THE SUBCOMMITTEE ON NATURAL RESOURCES DEVELOPMENT AND PRODUCTION OF THE COMMITTEE ON ENERGY AND NATURAL RESOURCES OF THE U.S. SENATE

Mr. Chairman and Members of the Subcommittee:

My name is Glenn Schleede. I work for the New England Electric System (NEES), which serves customers in more than 1.1 million homes, businesses, and institutions in Massachusetts, Rhode Island, and New Hampshire.

Summary

I appreciate this opportunity:

- First, to explain our company's and our customers' interest in coal and coal imports;
- Second, to urge you not to support adoption of protectionist measures on behalf of U.S. coal producers since such measures would add to the cost of electricity for millions of Americans;
- Third, to explain why we believe an import tax or other protectionist measures would be ineffective and counter-productive; and
- Finally, to identify steps that could be taken to make U.S. coal more competitive in U.S. and foreign markets.

I. NEES' and NEES' Customers' Interest in Coal and Coal Imports

Our company and our customers have a strong interest in the cost of coal at the mine and the cost of transporting it to our generating plants. Costs of fuel, fuel transportation, and any associated taxes are costs paid by our customers as a part of their monthly bills.

To understand our concern, it is first important to recognize that coal and the cost of hauling coal now have a significant impact on electric bills in New England.

A. Increased use of coal in lieu of foreign oil

Our foremost objective is to provide reliable electric service at the lowest practicable cost. The cost of fuel to

GENERATE ELECTRICITY IS IMPORTANT BECAUSE IT MAKES UP ABOUT 35% OF OUR TOTAL COSTS OF PROVIDING ELECTRIC SERVICE.

WE HAVE TAKEN MAJOR STEPS TO HOLD DOWN FUEL COSTS AND, SIMULTANEOUSLY, TO REDUCE DEPENDENCE ON FOREIGN OIL. IN 1979, NEES COMPANIES WERE 78% DEPENDENT ON FOREIGN OIL. TODAY, COAL SUPPLIES 50% OF THE ENERGY WE NEED TO GENERATE ELECTRICITY AND OIL ONLY 25%.

THIS CHANGE RESULTED FROM CONVERSION OF 6 GENERATING UNITS FROM OIL TO COAL -- AT A COST OF NEARLY $300 MILLION. THE CONVERSION HAS BEEN AN ENVIRONMENTAL AND ECONOMIC SUCCESS. IT WILL CONTINUE TO BE A GOOD DEAL FOR OUR CUSTOMERS AS LONG AS THE DELIVERED COST OF COAL IS REASONABLE AND WE DO NOT HAVE TO SWITCH BACK TO OIL.

THIS YEAR, WE WILL BURN ABOUT 3.5 MILLION TONS OF COAL AND AVOID BURNING ABOUT 15 MILLION BARRELS OF OIL.

B. U.S. COAL SOURCES AND TRANSPORTATION ROUTES

WITHIN THE U.S., WE CAN OBTAIN COAL MEETING OUR NEEDS IN PENNSYLVANIA, WEST VIRGINIA, AND VIRGINIA. WE MOVE THIS COAL TO EAST COAST PORTS BY RAILROAD (THERE ARE NO PRACTICAL ALTERNATIVES). SPECIFICALLY, COAL FROM PENNSYLVANIA IS MOVED OVER CONRAIL TO PHILADELPHIA; COAL FROM WEST VIRGINIA MOVES VIA CHESSIE (B&O AND C&O) TO BALTIMORE AND NEWPORT NEWS. COAL FROM VIRGINIA AND SEVERAL COUNTIES IN SOUTHWESTERN WEST VIRGINIA MOVES VIA NORFOLK SOUTHERN'S N&W RAILROAD TO NORFOLK.

FROM THESE EAST COAST PORTS, WE THEN MOVE COAL VIA SHIP AND BARGE TO OUR GENERATING PLANTS IN NEW ENGLAND. THERE ARE NO RAIL LINES TO OUR PLANTS.

C. RECENT EXPERIENCE WITH IMPORTED COAL

WE RECENTLY IMPORTED SOME COAL FROM THE CANADIAN PROVINCE OF BRITISH COLUMBIA. THIS EXPERIENCE DEMONSTRATED THE ECONOMIC ATTRACTIVENESS OF IMPORTED COAL AND THE CHALLENGES FACED BY THE U.S. COAL, RAIL, AND SHIPPING INDUSTRIES IN REMAINING COMPETITIVE.

1. Why Canadian coal was purchased

Thus far, we have received only one 40,000 ton cargo of foreign coal since our generating units have been converted back to coal. We arranged the cargo in August, 1984 as a part of our continuing program to test cargoes meeting our requirements from all potential sources that are competitive on a delivered cost basis.

When buying fuel meeting our quality requirements, the critical factor to us -- and our customers -- is the delivered cost. We take into account all elements that make up the total delivered cost when evaluating alternative sources of coal. Those elements include the cost of coal at the mine and all transportation costs. We are really interested in the delivered cost per Btu.

The Canadian cargo was also a part of our contingency plan for the miners' strike that was anticipated in October, 1984.

We do not have a preference for foreign coal. But, we do have an obligation to our customers to purchase fuel at the lowest possible delivered cost.

The delivered cost of the Canadian cargo was slightly less than the delivered cost of spot purchases of U.S. coal made last summer. But as you may know, the coal market has softened since last September and we are now buying spot cargoes at prices even less than the Canadian cargo purchased last August.

2. Source of the Canadian coal cargo

The supplier of the 40,000 ton cargo was Fording Coal Limited, which is a joint venture of Canadian Pacific Enterprises and Cominco Mining. The coal comes from the Fording River Mine, near Elkford, British Columbia. It is a surface mine with an output of 3 to 5 million tons per year.

The mine was developed in 1969 and began operation in 1972. Its primary customers are Japanese, Taiwanese, AND KOREAN STEEL MILLS, WITH SOME TONNAGE TO SOUTH AMERICAN STEEL MILLS AND PACIFIC POWER PLANTS.

THE MINE IS EXPECTED TO OPERATE WELL INTO THE 21ST CENTURY. IT IS A HIGHLY EFFICIENT MINE WITH RELATIVELY LOW RATIOS OF OVERBURDEN TO COAL. IT HAS A WASHING PLANT AT THE SITE AND FACILITIES WHICH CAN LOAD A 10,000+ TON UNIT TRAIN IN MOTION IN LESS THAN 4 HOURS.

3. RAIL TRANSPORT

THE COAL WAS SHIPPED 780 MILES WESTWARD BY THE CANADIAN PACIFIC RAILROAD. IT WAS LOADED ABOARD A SHIP AT THE ROBERTS BANK TERMINAL AT VANCOUVER, BRITISH COLUMBIA. IN EFFECT, THE UNIT TRAIN OF 108 ONE-HUNDRED TON CARS REMAINS IN CONTINUOUS MOTION BETWEEN THE MINE AND PORT AND WHILE LOADING AND UNLOADING. DESPITE THE NEED TO CROSS TWO HIGH MOUNTAIN PASSES (FOR WHICH MORE POWER IS ADDED), THE UNIT TRAINS MAKE THE ROUND TRIP IN 96 HOURS. SIXTEEN TO 19 TRAINS SHUTTLE BACK AND FORTH OVER THE ROUTE.

4. WATER TRANSPORT

THE WATERBORNE LEG OF THE ROUTE DOWN THE WEST COAST, THROUGH THE PANAMA CANAL AND THE CARIBBEAN, AND UP THE EAST COAST WAS APPROXIMATELY 8,000 MILES. THE TOTAL RAIL AND WATER TRIP OF 8,780 MILES COMPARES WITH ABOUT 800 MILES FOR COAL WE PURCHASE FROM APPALACHIAN AREAS OF THE U.S. THE SHIP THAT CARRIED THE COAL WAS LIBERIAN FLAG, JAPANESE BUILT AND OWNED, AND IS OPERATED BY A KOREAN CREW. THE LOWER CONSTRUCTION AND OPERATING COSTS OF FOREIGN FLAG VESSELS WERE REFLECTED IN THE COST OF MOVING OUR COAL FROM CANADA.

5. DELIVERED COST WAS COMPETITIVE WITH U.S. COAL

AS INDICATED, THE DELIVERED COST OF THIS CARGO OF COAL WAS SLIGHTLY LESS THAN THE DELIVERED COST OF SPOT PURCHASES OF U.S. COAL MADE AT THE TIME. WE EXPECT TO IMPROVE UPON THE PRICE UNDER ANY ARRANGEMENT FOR ADDITIONAL TONNAGE.

The cost advantages of the Canadian coal include the lower cost of the coal at the mine -- due to the geology and the highly efficient mining and loading operation -- and the substantially lower cost per ton-mile of the Canadian rail movement and the foreign flag vessel.

6. Coal from Colombia

We do not yet have experience with, or as much information about, coal that is becoming available from Colombia -- and which is already being purchased by some East and Gulf Coast users. However, I understand that Colombian coal -- particularly that from the El Cerrejon project on Colombia's northeastern peninsula -- has many cost advantages similar to the Canadian coal: thick seams over large areas; low overburden-to-coal ratios, permitting highly efficient mining; efficient rail transport, with only 100 miles to a deepwater port capable of handling ships up to 150,000 deadweight tons; and ability to use foreign-flag vessels.

I. Protectionist Measures to Reduce the Competitiveness of Imported Coal Would Push up Consumer Costs of Electricity

We are also interested in imported coal matters because protectionist measures -- such as the import tax provided for in a bill (HR 1905) recently reported by the House Interior Committee -- would push up U.S. consumers' cost of electricity. This could occur in two ways:

A. First, the cost of any import tax would be included in fuel costs paid by customers.

As indicated earlier, fuel, transportation, and fuel taxes are a part of the fuel costs reflected each month in customers' electric bills. Thus, any import tax would have an immediate effect on the cost of electricity generated by imported coal.

B. SECOND, U.S. COAL PRODUCERS AND TRANSPORTERS WOULD HAVE LESS COMPETITIVE INCENTIVE TO HOLD DOWN THE COST OF COAL PRODUCED IN THE U.S.

MOST OF US HAVE SEEN HOW COMPETITION FROM FOREIGN PRODUCTS HELPS HOLD DOWN THE COST OF U.S. PRODUCTS. WE ALSO KNOW THAT REDUCING THE COMPETITIVENESS OF FOREIGN PRODUCTS THROUGH AN IMPORT TAX, IMPORT RESTRICTION, OR OTHER SUBSIDY FOR U.S. PRODUCTS ENCOURAGES HIGHER PRICES FOR U.S. PRODUCTS AND SERVICES.

HIGHER PRICES FOR U.S.-PRODUCED FUEL WOULD BE REFLECTED IN ELECTRIC BILLS THROUGHOUT THE COUNTRY.

III. AN IMPORT TAX OR OTHER PROTECTIONIST MEASURE WOULD NOT BE EFFECTIVE IN MAKING U.S. COAL MORE COMPETITIVE AND WOULD LIKELY BE COUNTERPRODUCTIVE

THE THREAT OF COMPETITION FROM FOREIGN COAL IS CLEAR. IMPORTED COAL DOES LOOK LIKE AN ECONOMICALLY ATTRACTIVE ALTERNATIVE FOR COAL USERS LOCATED ON THE COASTS OR ON MAJOR WATERWAYS.

HOWEVER, IMPORTED COAL TO DATE IS SUPPLYING ONLY ABOUT .2% OF U.S. COAL USE. WE UNDERSTAND THAT A RECENT STUDY BY THE DEPARTMENT OF COMMERCE SUGGESTS THAT IMPORTED COAL IS NOT LIKELY TO MAKE MAJOR INROADS IN THE U.S.

WE DO UNDERSTAND THE REASONS FOR SOME U.S. PRODUCERS' INTEREST IN HAVING AN IMPORT TAX ON COAL. WHEN FACED WITH PRICE COMPETITION, THERE ARE ALWAYS TWO WAYS OF ATTEMPTING TO GAIN OR REGAIN COMPETITIVE EDGE:

- ONE APPROACH IS TO TRY TO PUSH UP THE COST OF THE COMPETITOR'S PRODUCT OR SERVICE. THAT'S THE CLEAR PURPOSE OF A TAX ON IMPORTS.
- THE SECOND APPROACH IS TO TRY TO BRING DOWN ONE'S OWN COSTS AND PRICE.

AN IMPORT TAX ON COAL HAS A SUPERFICIAL ATTRACTIVENESS -- BUT I BELIEVE IT WOULD BE AN INEFFECTIVE AND COUNTERPRODUCTIVE WAY TO ADDRESS THE PROBLEMS FACED BY THE U.S. COAL, RAIL, AND SHIPPING INDUSTRIES, FOR SEVERAL REASONS:

A. FACTORS OTHER THAN THOSE CITED BY PROPONENTS OF AN IMPORT TAX ARE IMPORTANT IN DETERMINING THE COMPETITIVENESS OF U.S. COAL.

PROPONENTS OF AN IMPORT TAX ON COAL AND OTHER PROTECTIONIST MEASURES GENERALLY CITE MORE STRINGENT U.S. ENVIRONMENTAL, SAFETY, HEALTH AND WELFARE STANDARDS AS MAJOR REASONS WHY FOREIGN COAL HAS A COMPETITIVE ADVANTAGE OVER COAL PRODUCED IN THE U.S. SUCH REQUIREMENTS PROBABLY DO AFFECT COMPETITIVENESS, BUT OUR EXPERIENCE WITH COAL IMPORTED FROM CANADA -- DESCRIBED EARLIER -- SUGGESTS OTHER FACTORS ARE MORE IMPORTANT. FOR EXAMPLE:

1. COST OF COAL AT THE MINE

COSTS OF COAL AT THE MINE ARE CLEARLY A MAJOR PART OF THE TOTAL DELIVERED COST OF COAL. COSTS OF COAL AT THE MINE INCLUDE THE COST OF OBTAINING THE RIGHTS TO THE COAL RESERVES, ENGINEERING AND PERMITTING COSTS, COST OF EQUIPMENT AND MATERIALS, EMPLOYEE COSTS, ON-SITE TRANSPORT, COAL LOADING AND RECLAMATION COSTS, ROYALTIES AND VARIOUS NON-PAYROLL TAXES AND FEES.

THE RELATIVE IMPORTANCE OF THE VARIOUS ELEMENTS VARIES WIDELY FROM MINE TO MINE, DEPENDING UPON GEOLOGIC CONDICTIONS (THICKNESS OF COAL SEAMS AND AMOUNT OF OVERBURDEN), TYPE OF MINING PERMITTED (SURFACE OR DEEP), EFFICIENTY OF THE OPERATIONS, LABOR AGREEMENTS, GOVERNMENT REQUIREMENTS, ETC.

OUR EXPERIENCE WITH CANADIAN COAL SUGGESTS THAT THE PARTICULAR MINE INVOLVED HAS A MAJOR ADVANTAGE OVER MINES IN APPALACHIAN STATES DUE TO GEOLOGIC CONDITIONS; I.E., NUMEROUS AND VERY THICK COAL SEAMS AND LOW RATIOS OF OVERBURDEN TO COAL. WE ARE NOT EXPERT IN ALL FACETS OF COAL MINING, BUT THE CANADIAN MINE FROM WHICH WE OBTAINED COAL APPEARS TO BE A HIGHLY EFFICIENT OPERATION ENJOYING RELATIVELY LOW OPERATING COSTS. IT ALSO HAS FACILITIES PERMITTING VERY RAPID LOADING OF RAIL CARS -- WHICH HELPS HOLD DOWN TOTAL COSTS.

2. Rail transport costs high

Rail transport costs are also a significant part of the delivered cost of coal -- making up 25% of the total in our case and much larger percentages for some major U.S. coal users. Excessive rail costs are a serious problem for U.S. coal producers and users. Reduction of rail costs represents an excellent opportunity for making coal produced in the U.S. more competitive in both U.S. and foreign markets.

There are at least 3 prime areas for attention:

A. Rates for coal cross-subsidize other commodities

Perhaps the most obvious area for attention is the added cost loaded on U.S. coal shipped by rail that results from the "license" given railroads in the Staggers Act to include a cross-subsidy for other commodities in rates charged for moving coal. For those who may not be familiar with this situation, I should point out that -- under the Staggers Act -- railroads are free to:

. Charge rates less than necessary to recover fully allocated costs on some rail movements (perhaps where the railroad has competition from trucks or barges), and

. Charge more than fully allocated costs on other movements -- which often turns out to be coal.

These cross-subsidies add to delivered costs of coal, penalize coal users and their customers, and make U.S. coal less competitive in U.S. and foreign markets. Congress and the coal industry supporters of the Staggers Act probably did not realize back in 1979 and 1980 that they were helping to reduce the competitiveness of U.S. coal.

B. Railroad inefficiencies

The second area of unnecessarily high rail costs is one for the attention of railroads and coal producers: that is, reducing inefficiencies of rail transport.

We became acutely aware of this when we saw the tremendous efficiency of the movement of our cargo of Canadian coal. Clearly, the physical situations are different, including the geology, the geography, and the size of the mining operation, when compared to Appalachia. Yet, consider some of the differences:

. Loading speed - Canadian coal was loaded on a 108-car train in motion in less than 4 hours.

. Train movements - Continuous movement of the unit trains carrying Fording River coal -- with additional power added in motion when it was needed to cross mountain ridges. The 780-mile movements from mine to port required an average of only 2 days. The eastern railroads we use often require 5 days for a 400- to 500-mile movement from Appalachian mines to East Coast ports. In addition:

  - In the case of one of our U.S. movements, one train crew travels only 68 miles -- apparently because of labor agreement provisions.

  - One U.S. railroad we use makes a switch, on average every 70 to 80 miles; another averages one switch every 150 miles. The Canadian coal remains in motion for 780 miles.

  - One eastern U.S. railroad has very small operating districts; another has somewhat larger districts -- but both are small with respect to U.S. western railroads. The Canadian movement was not affected by size of operating districts.

  - Frequent stopping and switching of cars and locomotives and crews occurs on our U.S. rail movements. One effect in the winter is that the longer times increase the possibility of freezing of coal in the cars -- and thus the requirement for freezeproofing, which adds to the coal cost. Coal from Froding River does not require freezeproofing because of the short time (48 hours) in the rail cars.

- Larger rail cars - The Canadian Pacific uses 100-ton cars. By contrast, we are continuing to find that U.S. railroads provide some cars carrying as little as 50 tons. These small cars tend to have nearly the same length as larger-capacity cars. The inefficiencies are clear when you consider that they carry only half the coal yet take the same time or space in train length, passing sidings, switching, thawing sheds, and dumpers. Thus, handling cost per ton increases when small cars are used.
- High fixed costs - Some U.S. railroads have not reduced fixed costs aggressively. These high fixed costs tend to fall on coal movements where there is little or no competition.
- Crew utilization - Crew utilization became very poor on at least one railroad -- due in part to low business volume during the period when coal users were working off inventories built in expectation of a regular triennial mine strike.

All these inefficiencies tend to add costs and thus reduce coal's competitiveness. It is a bit sad to realize that coal producers, railroads, and their employees might prefer to seek a protective tariff rather than face up to the challenge of regaining a competitive edge through improving productivity and efficiency and reducing unnecessary costs. It is particularly sad when you recognize that other industries have contributed to their own lack of competitiveness and decline by following essentially the same approach.

c. Excessive railroad returns from coal traffic

A third area that contributes to unnecessarily high rail rates for coal is the high returns to railroads allowed for coal traffic. Once again, the Staggers Act is the principal cause of the problem. Among its many provisions that are adverse to coal is the provision

THAT THE ICC DOES NOT LOOK AT THE REASONABLENESS OF RATES UNLESS THE RATE CHARGED IS MORE THAN 180% OF VARIABLE COSTS. (SHIPPERS MUST PASS THE "MARKET DOMINANCE" AND "REVENUE ADEQUACY" TESTS BEFORE GETTING TO THE 180% TEST.)

AS POINTED OUT IN THE HOUSE COMMITTEE REPORT THAT ACCOMPANIED THE HOUSE VERSION OF THE STAGGERS ACT BACK IN 1980, A RATE OF 180% OF VARIABLE COST WOULD PROVIDE A RETURN ON EQUITY OF 62% BEFORE TAXES.

HIGH RETURNS ON COAL MOVEMENTS ARE ANOTHER CONTRIBUTION TO HIGH RAIL RATES FOR TRANSPORTING COAL AND ANOTHER REASON U.S. COAL IS LOSING ITS COMPETITIVE EDGE.

3. WATER TRANSPORT COSTS HIGH

ANOTHER EXAMPLE OF WAYS TO REDUCE UNNECESSARY COSTS OF U.S. COAL RELATES TO WATER TRANSPORT COSTS. WE ARE NOT EXPERIENCED IN INLAND BARGE MOVEMENTS OF COAL, BUT WE HAVE ENOUGH EXPERIENCE WITH COASTWISE MOVEMENTS TO KNOW THAT CURRENT LEGAL REQUIREMENTS HELP PUSH UP DELIVERED COAL COSTS. I'M REFERRING TO THE JONES ACT RESTRICTION, WHICH REQUIRED THE USE OF U.S. FLAG VESSELS IN MOVEMENTS BETWEEN TWO U.S. PORTS. IN ADDITION, PROPOSALS ARE INTRODUCED EACH YEAR TO REQUIRE USE OF U.S. FLAG VESSELS FOR EXPORTED COAL.

OUR RECENT COAL PURCHASE FROM CANADA -- WHERE THE COAL MOVED 8,000 MILES BY SHIP -- DEMONSTRATED ONCE AGAIN THE DIFFERENCE IN COSTS BETWEEN FOREIGN AND U.S. FLAG VESSELS. THE FIRM SELLING US THE COAL CHOSE A FOREIGN FLAG VESSEL TO DELIVER THE COAL BECAUSE LOWER SHIP CONSTRUCTION AND OPERATING COSTS MADE IT POSSIBLE TO COMPLETE THE WATERBORNE LEG OF THE TRIP -- FROM VANCOUVER TO MASSACHUSETTS -- AT A FRACTION OF THE COST PER TON-MILE OF A U.S. FLAG VESSEL.

B. AN IMPORT TAX WOULD DO NOTHING TO HELP U.S. COAL COMPETE IN THE U.S. AGAINST OIL AND NATURAL GAS.

AT PRESENT, U.S. COAL HAS A SIGNIFICANT PRICE ADVANTAGE OVER OIL AND NATURAL GAS FOR THOSE PLANTS HAVING THE

CAPABILITY TO BURN COAL. HOWEVER, WE ALL KNOW THAT ANY CHOICE TO BURN COAL REQUIRES A SIGNIFICANT PRICE ADVANTAGE IN FAVOR OF COAL BECAUSE OF:

. HIGHER CAPTIAL COSTS FOR A COAL-FIRED PLANT
. GREATER SPACE REQUIREMENTS
. GREATER DIFFICULTIES IN TRANSPORTING, HANDLING, AND STORING COAL
. HIGHER OPERATING AND ENVIRONMENTAL PROTECTION COSTS
. HIGHER ASH OR OTHER WASTE DISPOSAL COSTS

WHILE COAL'S PRICE ADVANTAGE HAS BEEN SIGNIFICANT, THAT ADVANTAGE IS THREATENED BY HIGHER COSTS OF MINING, TRANSPORTING, AND USING COAL AND IS NOT GREAT ENOUGH NOW TO BRING ABOUT THE CONVERSION OF A SUBSTANTIAL NUMBER OF ADDITIONAL PLANTS FROM OIL TO COAL. FURTHERMORE, ALL WHO WATCH OIL AND NATURAL GAS MARKETS KNOW THAT SUPPLIES ARE NOW PLENTIFUL AND PRICES ARE DECLINING RAPIDLY. THUS, U.S. COAL FACES INCREASING PRICE COMPETITION FROM OIL AND NATURAL GAS. THIS COMPETITION WILL BE UNAFFECTED BY AN IMPORT TAX ON COAL.

C. MEASURES SUCH AS IMPORT TAXES SELDOM ARE EFFECTIVE IN PROTECTING A DOMESTIC INDUSTRY.

IT'S CLEAR THAT SOME FOREIGN COUNTRIES CAN PRODUCE AND DELIVER COAL AT PRICES BELOW THOSE OF U.S. PRODUCERS AND TRANSPORTERS. THE U.S. HAS A WEALTH OF EXPERIENCE TO DEMONSTRATE THAT AN IMPORT TAX OR OTHER SUBSIDY TO PROTECT A HIGHER COST U.S. PRODUCT ONLY WORKS TO DELAY THE TIME WHEN THE PROTECTED INDUSTRY MUST TAKE THE STEPS NECESSARY TO REGAIN ITS COMPETITIVE EDGE THROUGH GREATER EFFICIENCY OR OTHER COST-REDUCTION MEASURES. DELAYING TRULY MEANINGFUL MEASURES MAKES THE ADJUSTMENT MORE DIFFICULT AND THE DISLOCATION GREATER ONCE THE DECLINE OCCURS. THIS CERTAINLY HAS BEEN DEMONSTRATED BY THE STEEL INDUSTRY AND DOZENS OF OTHERS IN OUR COUNTRY'S RECENT HISTORY.

D. AN IMPORT TAX WOULD NOT HELP U.S. COAL PRODUCERS COMPETE IN FOREIGN MARKETS.

COAL IMPORTS APPARENTLY TOTALLED LESS THAN 1.5 MILLION TONS, OR ABOUT .2% OF U.S. COAL CONSUMPTION, IN 1984. THE FAR

MORE IMPORTANT THREAT TO U.S. COAL PRODUCERS WOULD APPEAR TO BE THAT FOREIGN PRODUCERS WILL FURTHER DISPLACE U.S. COAL IN FOREIGN MARKETS -- PARTICULARLY IN EUROPE AND PACIFIC RIM COUNTRIES. U.S. COAL EXPORTS DROPPED FROM 110 MILLION TONS IN 1981 TO 81 MILLION TONS IN 1984. THE HIGH VALUE OF THE U.S. DOLLAR UNDOUBTEDLY EXPLAINS PART OF THE DROP, BUT THE ABILITY OF OTHER COUNTRIES TO PRODUCE AND TRANSPORT COAL MORE CHEAPLY IS A CRITICAL FACTOR.

CLEARLY, A TAX ON COAL IMPORTED INTO THE U.S. WILL DO NOTHING TO HELP U.S. COAL IN FOREIGN MARKETS.

E. TRADE BARRIERS INVITE RETALIATION

HISTORY HAS ALSO DEMONSTRATED THAT RETALIATION IS THE NORMAL RESPONSE TO AN IMPORT TAX -- OR OTHER FORMS OF SUBSIDIES ESTABLISHED TO CREATE AN ARTIFICAL COMPETITIVE EDGE. APPARENTLY THIS IS RECOGNIZED BY SUPPORTERS OF H.R.1905, SINCE COAL FROM CANADA IS, IN EFFECT, EXEMPT FROM AN IMPORT TAX. THE U.S. NOW EXPORTS SOME 17 MILLION TONS OF COAL ANNUALLY TO CANADA.

F. PROTECTIONIST MEASURES ARE COUNTERPRODUCTIVE IN THAT THEY DIVERT ATTENTION FROM EFFORTS THAT COULD HELP U.S. COAL BE MORE COMPETITIVE.

THE TIME AND RESOURCES OF BOTH THE CONGRESS AND THE COAL INDUSTRY ARE LIMITED. THE EFFORTS ALREADY DEVOTED THIS YEAR TO AN IMPORT TAX HAS DIVERTED ATTENTION FROM ACTIONS THAT COULD PROVIDE GREATER BENEFITS.

IV. PRODUCTIVE STEPS THAT COULD BE TAKEN TO HELP MAKE U.S. COAL BECOME MORE COMPETITIVE.

IN SUMMARY, THERE ARE A NUMBER OF STEPS THAT COULD BE TAKEN BY COAL PRODUCERS, MINERS, TRANSPORTERS AND FEDERAL, STATE, AND LOCAL GOVERNMENTS TO MAKE U.S. COAL MORE COMPETITIVE IN BOTH U.S. AND FOREIGN MARKETS. SOME SPECIFIC SUGGESTIONS ARE LISTED BELOW.

A. REDUCING COST OF COAL AT THE MINE

1. PRODUCERS AND THEIR EMPLOYEES WILL HAVE TO BE RESPONSIBLE

FOR FINDING WAYS TO IMPROVE PRODUCTIVITY AND REDUCE COSTS.

2. FEDERAL, STATE, AND LOCAL GOVERNMENTS COULD FIND WAYS OF REDUCING TAXES AND FEES WHICH ACCOUNT FOR MORE THAN 10% OF THE COST OF COAL AT THE MINE.
3. THESE SAME BODIES COULD WORK TO FIND THE MOST COST EFFECTIVE WAY OF MEETING ESSENTIAL ENVIRONMENTAL, SAFETY, HEALTH AND WELFARE STANDARDS.

B. REDUCING COAL TRANSPORTATION COSTS

1. COAL PRODUCERS HAVE RESPONSIBILITY TO PROVIDE EFFICIENT LOADING OF RAIL CARS AT THE MINE.
2. RAILROADS AND THEIR EMPLOYEES HAVE RESPONSIBILITY TO REDUCE THE INEFFICIENCIES THAT ARE PUSHING UP COSTS.
3. CONGRESS CAN PROCEED EXPEDITIOUSLY TO MAKE CHANGES IN THE STAGGERS RAIL ACT OF 1980 TO:
   . REDUCE OR ELIMINATE THE CROSS-SUBSIDY THAT IS BORNE BY COAL.
   . BRING RAIL RATES AND RAILROADS' RETURN ON EQUITY BACK INTO LINE.
4. CONGRESS CAN ALSO PASS LEGISLATION PROVIDING THE FEDERAL POWER OF EMINENT DOMAIN FOR COAL PIPELINES SO THERE ARE TRANSPORTATION ALTERNATIVES AND COMPETITION TO HELP BRING ABOUT REASONABLE RAIL RATES.
5. CONGRESS COULD ALSO PASS LEGISLATION TO REDUCE THE HIGH COST OF SHIPPING DUE TO JONES ACT RESTRICTIONS.

CONCLUSION

THE U.S. COAL, RAIL AND SHIPPING INDUSTRIES AND THEIR EMPLOYEES -- AS WELL AS THEIR REPRESENTATIVES IN GOVERNMENT -- FACE A SERIOUS CHALLENGE IN MAKING U.S. COAL COMPETITIVE WITH OTHER FUELS AND WITH COAL FROM OTHER COUNTRIES. I BELIEVE THAT ALL WHO ARE INTERESTED IN THE TREMENDOUS CONTRIBUTION THAT U.S. COAL CAN MAKE TO THE NATION'S STRENGTH AND WELFARE WILL BE BETTER SERVED IF THAT CHALLENGE IS MET HEAD ON -- RATHER THAN TRYING TO AVOID THE CHALLENGE THROUGH PROTECTIONIST MEASURES THAT ARE UNLIKELY TO BE EFFECTIVE.

I WOULD BE PLEASED TO TRY TO ANSWER ANY QUESTION YOU MAY HAVE.

Senator WARNER. Why don't we turn to Mr. Hill and then come back?

STATEMENT OF FORREST E. HILL, PRESIDENT, HILL & ASSOCIATES, INC.

Mr. HILL. Mr. Chairman and Senator Rockfeller, my name is Forrest Hill. I am president of Hill & Associates, a consulting firm located in Annapolis, MD. It's an honor to be asked to testify this morning before your committee. You have my formal statement and I also will try and summarize those comments.

Senator WARNER. It will be included in the record.

Mr. HILL. Before I get into numbers, I would like to say that my testimony is based on three different consulting studies we did on a commercial basis—one looking at the East and gulf coast, one looking at the Midwest, and one looking at the west coast also, which has not been mentioned this morning. But there is also an import market on the west coast, albeit a small one.

The numbers I will give you this morning relate only to the East and the gulf coast markets. The other studies are still under way.

In those markets we looked at 91 plants and our conclusion was that by the end of the decade or shortly thereafter it's conceivable that coal imports to those plants could reach the order of magnitude of 10 million tons a year. That compares with about 1.2 million currently.

To illustrate the competitiveness of foreign coals, I'd like to give you some numbers. It's clear—everyone has already said this—that Colombia is the most competitive foreign producer. But other foreign countries also are competitive, in some cases because of quality restrictions.

Of the 57 plants in the Atlantic region that we looked at, foreign coals are competitive at 27. Along the gulf coast, foreign coals compete U.S. prices at 23 of 34 plants. And in 1990 at those plants some 37.6 million tons will be vulnerable to foreign coals because that tonnage is not committed to contract and the foreign coals will meet the quality specs and the foreign coals can compete on a price basis.

That analysis was essentially done almost a year ago, and since that time there have been some changes. U.S. prices have dropped a little bit, on average, but so have foreign prices. So have shipping costs for ocean shipping and so have barge rates in the United States and up the St. Lawrence River, as far as we can determine. So the numbers that we gave on the competitive situation are probably conservative.

In conducting the analysis, we looked at coals from five different producing countries, and we did not consider some that probably in the long run will be trying to export coal to the United States—primarily Venezuela, and Venezuela has a very competitive mine coming on stream that might be able to export another 2 million tons a year.

Senator WARNER. What about the one in China?

Mr. HILL. The Chinese mine is not likely to compete in the United States. They would if they export the tonnage from that mine, which is Occidental Petroleum's hope, that would probably go to Japan.

Senator **Warner**. But that takes away one of the major markets that West Virginia and Virginia presently have.

Mr. **Hill**. Yes, sir, that's correct. It would take export tonnage away from the United States.

Some of the factors that have made the foreign coal competitive in the United States are likely to improve or might improve, but some of them won't. One of the most important ones which has already been mentioned is the very low operating cost of the mines in the foreign countries that are going to be exporting. Our numbers, for instance, are that Exxon and Carbocol could put coal at the port in Colombia for about $25 a ton and cover their costs, so anything more than that would make them, would give them a positive cash flow.

Senator **Warner**. That's in the harbor at Colombia on the dockside?

Mr. **Hill**. Yes, sir, and that number is a rough estimate that's developed from sources that we pursued privately. You know, we've not worked those out in detail ourselves, but we've tested them a lot of different ways and I think that's a realistic number.

The second factor that's contributed——

Senator **Warner**. Could you translate that number into that ton of coal being transported to Hampton Roads, VA?

Mr. **Hill**. That would cost maybe $6 a ton, so that would be in the low 30's at Hampton Roads, conceivably as low as that. We understand that, well, there are offers in the United States in the mid to high 30's, delivered.

Another factor that's made foreign coals competitive is the excess capacity of ships, of ocean vessels. As far as we can tell, that's going to continue for the foreseeable future and over the past year's ocean freight rates have declined slightly in terms of U.S. dollars.

Another factor is the easy access to water of many U.S. powerplants and that won't change. And, finally, a factor that has contributed very strongly is the strength of the U.S. dollar.

I have given you some numbers, but just since over the past year, ignoring the increase in the strength of the dollar in prior years, if you look at the effect on prices of just the exchange rates and ignore inflation and other factors, Canadian coal has dropped $3 a ton. Colombian coal has dropped $9 a ton. Australian coal, $10. And South African coal $12.40.

Now those differences haven't been realized in the marketplace. For instance, in the case of South Africa, they've had strong inflation and they've been able to raise their prices slightly in terms of the rand, but certainly it's killing our competitiveness, and it's not only important to the U.S. import market, but to the U.S. export market.

And it is clear to our analysis that the policies of the U.S. Government that have led to high interest rates and a strong dollar are putting our coal industry in an untenable position.

Now there are, as have been mentioned before, a number of factors that will limit the penetration of foreign coals to a level below what a pure dollar and cents consideration might say. One, U.S.

buyers are generally wary of taking all their supplies from foreign sources. They need a substantial differential to make it worth their while to bother with foreign sources. In some cases, U.S. mines can lower their prices. Even though the coal industry is suppressed, there still are some high contract prices carried over from prior days and there's room for movement there.

And I think we've heard adequately this morning the railroads have room to move in their rates, in some cases, and I think they will. We have had a lot of interest in our studies from the railroads that serve the east and gulf coast, and I would suspect that they have every intention of meeting the foreign competition with lowered rates.

And, finally, then, there are some limits to the excess capacity of foreign coal producers to actually ship. We have made an estimate that the tonnage might be about 7 or 8 million tons a year. That's a rough estimate and all or any of these factors could affect that tonnage up or down. Over the next 5 to 10 years it could be more than that. It could be a lot less.

That's everything I have to say.

[The prepared statement of Mr. Hill follows:]

TESTIMONY ON THE OUTLOOK FOR COAL IMPORTS INTO THE UNITED STATES

Presented to the United States Senate
Subcommittee on Natural Resources
Development and Production

June 6, 1985

Forrest E. Hill
President
Hill & Associates, Inc.
P.O. Box 3475
Annapolis, Maryland 21403
(301) 263-6616

Mr. Chairman and Senators, it is an honor to be asked to appear before this subcommittee to provide testimony on the outlook for coal imports into the United States. It is hoped that the information will provide insights into the current situation and assist in formulating appropriate policy.

My testimony is based upon the work my firm has done in three different consulting studies in cooperation with Bennett & Associates of Denver, Colorado, analyzing the potential for coal imports into the United States. In November, 1984, we completed the first of these studies, an evaluation of the market regions along the Atlantic and Gulf coasts. That study included some ninety-one plants that are close to salt water ports or that can receive coal directly by ocean-going vessels or barges. The second and third studies cover the Midwest and the Pacific Coast respectively. These studies are not yet complete, but are sufficiently advanced to allow us to draw general conclusions from the data we have in hand.

Our major conclusion from these studies is that coal imports could reach a significant level, on the order of 10 million tons per year. This number compares with only 1.2 million tons in 1984. The actual level of penetration achieved by foreign coals is subject to many influencing factors, the strongest of which is the value of the U.S. dollar; however, it is clear that many foreign coal producers can now offer coal that meets the quality requirements of U.S. power plants and is lower in delivered price than much of the competitive U.S. coal. And, it appears that coal buyers in the non-coal producing states are willing to try foreign coals.

In order to illustrate the competitiveness of foreign coals in the U.S. market, I would like to discuss the results of our analysis of the plants along the Atlantic and Gulf coasts. Of the 57 plants in the Atlantic region, foreign coals are competitive at 27. Along the Gulf coast, foreign coals can beat U.S. prices at 23 of the 34 plants. In 1990, some 37.6 million tons are likely to be vulnerable to foreign competition. This number represents the tonnage at the competitive plants that is not already committed to contracts.

Many of the plants will have the choice of more than one foreign coal-producing country. For instance, in the southern portion of the Atlantic Coast, the level of competition for uncommitted 1990 utility powerplant tonnage is as follows:

- 27% of the tonnage will have no effective foreign competition.

- 9% of the tonnage will have one competitive foreign country.

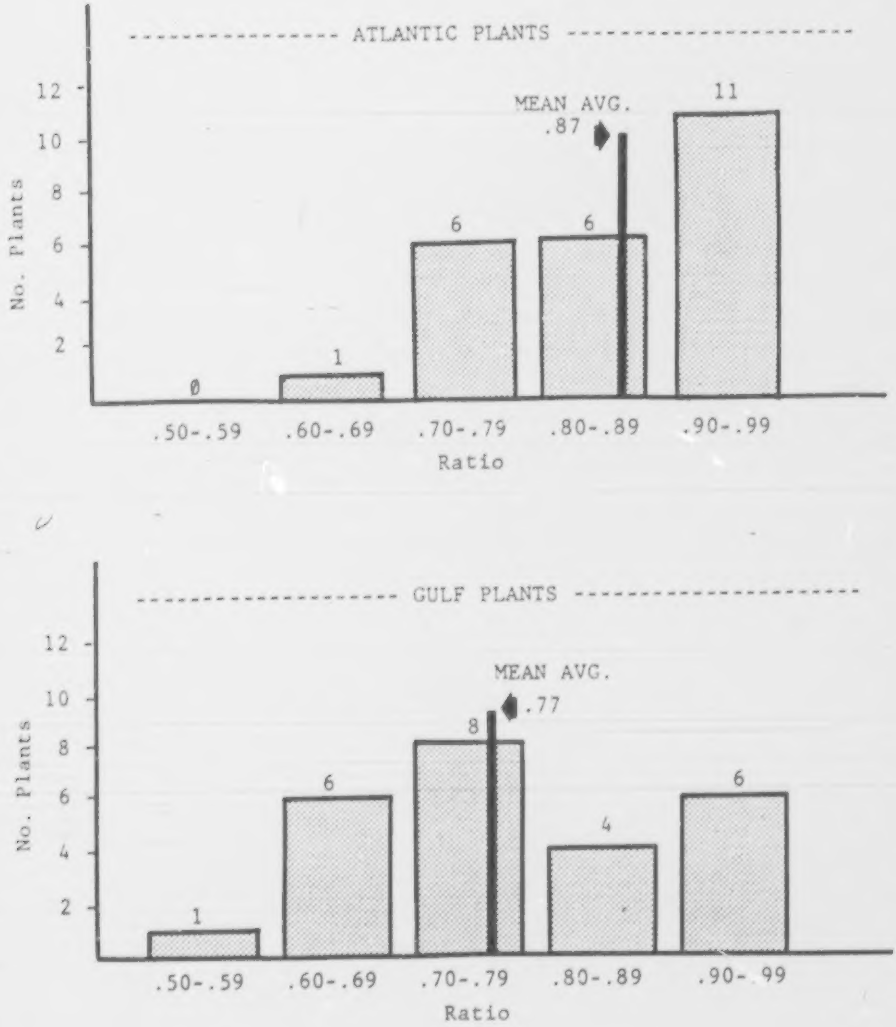
- 12% of the tonnage will have two competitive foreign countries.

- 27% of the tonnage will have three competitive foreign countries.

- 25% of the tonnage will have five competitive foreign countries.

It must be noted that some of these foreign coals pose more of a threat to U.S. producers than do the others. For example, the delivered price of foreign coal at one plant would be only about 52% of the present U.S. coal price. At other plants, the foreign coals are only marginally below the U.S. prices. Along the Atlantic Coast, competitive foreign coals range from 60 to 99% of the U.S. price, with an average of 87%. Among the Gulf plants, the range is from 52% to 96% and the average is 77%. (See Figure 1.)

Figure 1
RATIO OF FOREIGN COAL PRICES TO U.S. COAL
PRICES AT PLANTS WHERE FOREIGN COAL QUALITY IS ACCEPTABLE



In addition to the 91 Atlantic and Gulf Coast utility plants discussed above we have identified another 76 plants in the Midwest that are also likely to be vulnerable to imports. Because most barges now travel full down the Mississippi River and empty on the return trip upstream, barge operators offer very low backhaul rates to commodities bound upstream. Coal can move from New Orleans all the way to Chicago for only about $6.00 per ton. This means that foreign coals can compete at many plants on the Mississippi, Ohio and Missouri Rivers. For the same reasons, coal can also come up the St. Lawrence River into the Great Lakes at low cost.

In conducting our analysis we looked at coals from 5 coal-exporting countries: Australia, Canada, Colombia, Poland and South Africa. Colombia will be the most important in the U.S. market, but all have the potential to make sales in this country. In fact, all have made sales already. In addition, it now appears that Venezuela will be offering about two million tons per year at prices equal to or lower than the Colombian coal.

- Some of the factors that have made foreign coals competitive in the United States are likely to abate; but others are not. The primary factors that have created this import market are as follows:

    - The excess capacity of newly developed export-oriented mines abroad.

- The typically low operating costs (exclusive of capital charges) of the foreign mines.

- Excess capacity in ocean vessels, which has led to lower ocean freight rates.

- The easy access to water of many U.S. power plants.

- The strength of the U.S. dollar.

It appears that it will be years before demand for coal increases enough to absorb all of the capacity that was or is being developed as a result of the boom in coal prices in the 1970's. As long as this over-capacity persists, the marginal mine operators will tend to offer their coal at prices high enough to cover cash costs but not nearly high enough to provide a reasonable rate of return on investment. And in newly developed surface mines with heavy investments in infrastructure, there is a huge difference between cash costs and full profit prices. For example, the Cerrejon coal in Colombia can generate a positive cash flow at any price over about $25.00 per short ton at the port in Colombia. But Exxon would apparently need about $55 per ton to achieve a 15% ROI at Cerrejon.

Ocean freight is now at low levels and not likely to increase substantially unless there is a sustained increase in

World-wide economic activity. Our interviews with ship brokers and other shipping industry specialists indicate that the number of new bottoms currently under construction will maintain a downward pressure on ocean freight rates for the foreseeable future. This means that it will continue to be possible to bring coal all the way from Australia to the East Coast of the U.S. for about $12.00 per ton. With so many U.S. power plants located on or near water, these low ocean freight rates are very important.

The strength of the U.S. dollar relative to other currencies has had a direct impact on the competitiveness of foreign coals in the U.S. And a drop in the dollar could be the single most effective deterrent to imports. If the dollar dropped by 20%, we estimate that competitive import tonnage would drop by 68% along the Atlantic Coast and by 42% in the Gulf region.

If we look at just the past year, the effect of the stronger dollar has been to give our competitors in coal a tremendous advantage. In terms of dollars per ton, here is the exchange rate impact on foreign coal prices:

Canadian coal -	Down $3.06/ton
Colombian coal -	Down $9.24/ton
Australian coal-	Down $10.08/ton
South African coal -	Down $12.40/ton

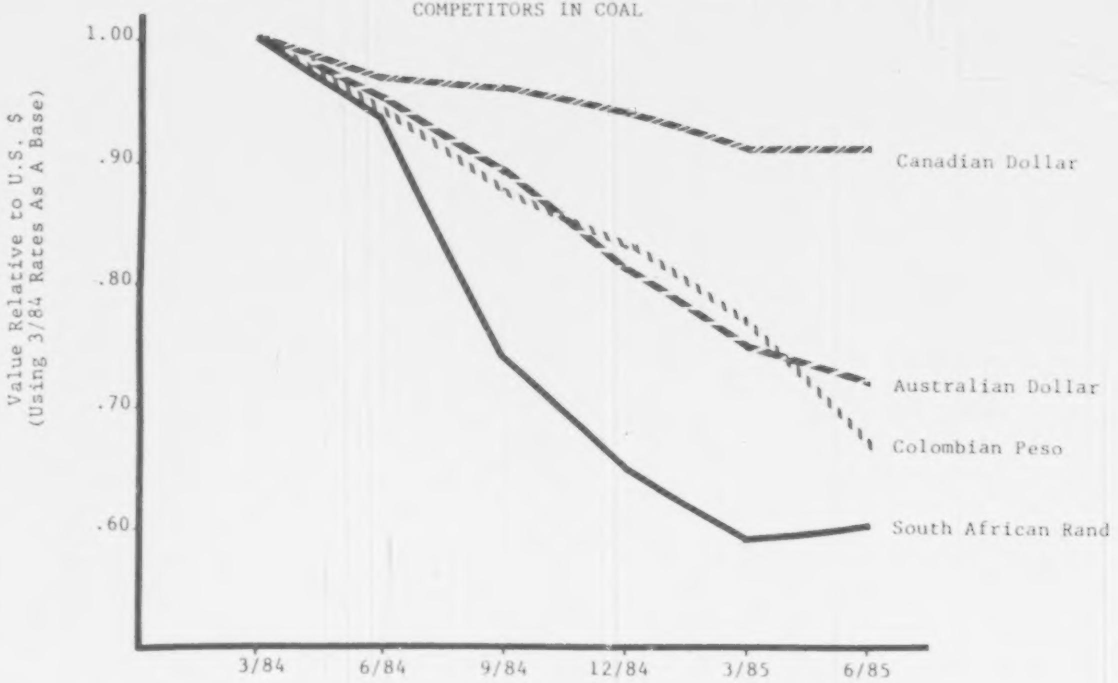
Other factors such as internal inflation rates might act to offset these differentials, but it is clear that the policies of the United States government that have led to high interest rates and a strong dollar are putting our coal industry in a untenable position. (Figures 2 and 3 show the relative exchange rates and the effects on dollars per ton.)

There are a number of factors limiting the penetration of foreign coals to a level below the maximum economic limit. In the discussion above, I mentioned that for the 91 coastal plants as much as 37.6 million tons could theoretically be replaced in 1990 by foreign coals. And, that number will be considerably higher when the Midwest plants are counted. However, there are a number of constraints on the use of foreign coals that will, I believe, limit imports to a much loser level. These are:

1. U.S. coal buyers indicate they will not buy foreign coals unless the price advantage is large enough to justify the additional risks and trouble of using foreign sources. The practical threshold for competitiveness is probably a foreign coal price at 90% (or less) of the U.S. price.

Figure 2

THE U.S. DOLLAR CONTINUES TO GROW STRONGER AGAINST ALL OF OUR MAJOR COMPETITORS IN COAL



Price of Foreign Currencies In U.S. $		3/84	6/85
	Canadian $	0.80	0.73
	Australian $	0.94	0.68
	Colombian Peso	0.011	0.007
	S.African Rand	0.84	0.50

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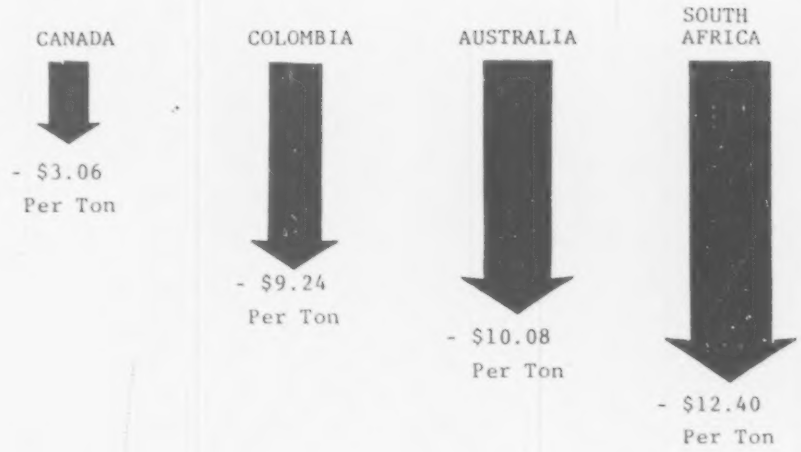
6/6/85

Figure 3

THE SWING IN EXCHANGE RATES HAS GIVEN
OUR COMPETITORS A HUGE PRICE ADVANTAGE

The Impact Of
Exchange Rates
On Last Year's
Prices For
Foreign
Coals.



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2. The many utilities we interviewed generally stated that they would be unlikely to commit more than one-third of their tonnage needs to a foreign source.

3. In some instances, there is room for more aggressive pricing by U.S. mines. Despite the soft market for U.S. coal, some mine operators have highly profitable contracts with escalated prices far above the current market. As these come up for re-negotiation, the producers can cut prices and still maintain a profit.

4. Where railroads have not had competition in moving coal to some plants, the existing rate structures almost certainly contain high profit margins. The railroads are actively looking at the threat of imports and might reduce rates to keep their markets.

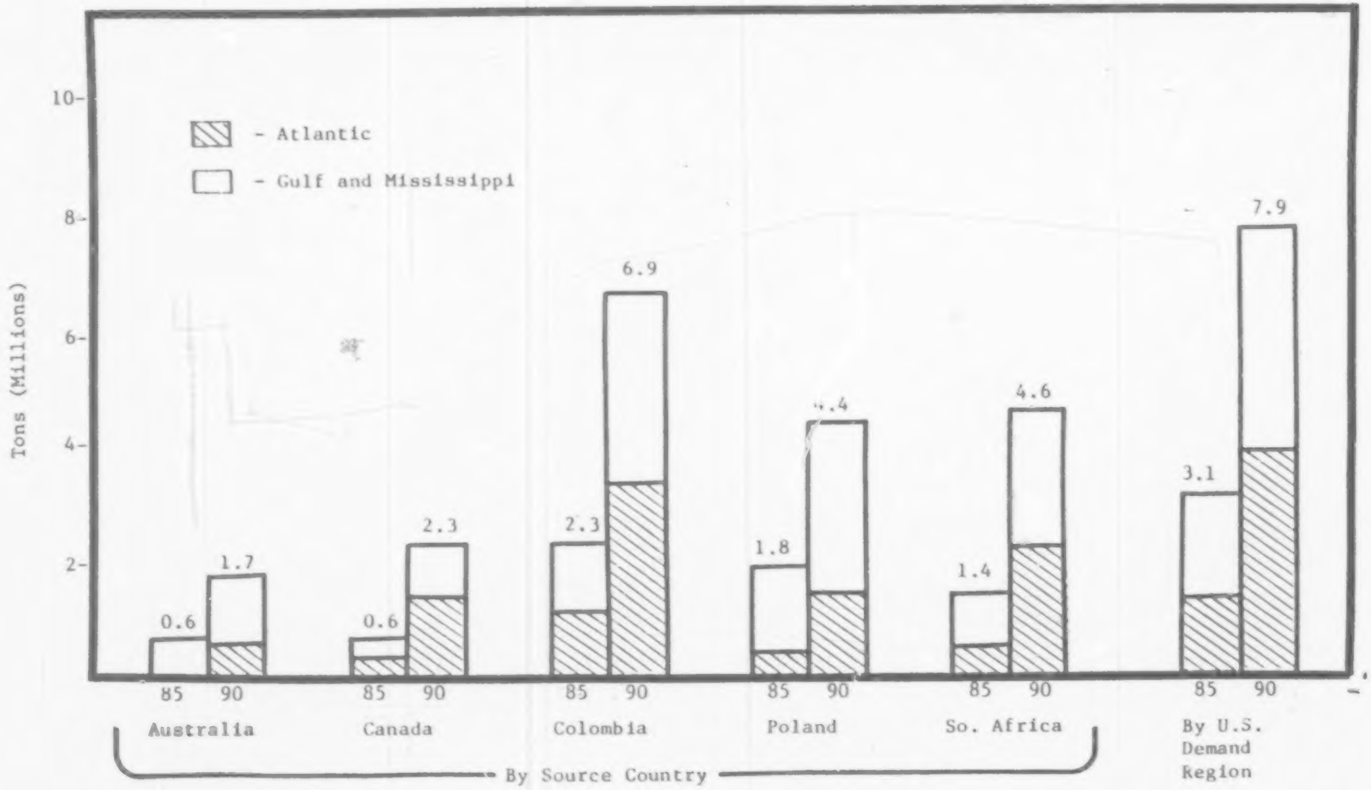
5. There are limits to the excess capacity of foreign coal producers. The Poles, for example, can ship only small amounts into the U.S.

6. The lack of facilities for unloading bulk cargoes at many U.S. ports and plants and the lack of harbor channels deep enough to accommodate large and low-cost ocean vessels both act to raise delivered prices of foreign coals above what they might be and to limit imports accordingly.

Because of these constraints, we estimated that the maximum attainable level of imports into the Atlantic and Gulf regions is about 7.9 million tons annually. This figure could not be reached before 1990 because of existing contract commitments at the competitive plants. As of today, the figure could be no more than 3.1 million tons because there is less uncommitted tonnage. (See Figure 2.) When the Midwest and West Coast regions are taken into account, the total for potential imports will be even higher.

FIGURE 2

MAXIMUM LIKELY IMPORT DEMAND



Senator **Warner**. Well, it had a few salient points in it.

Mr. Rockefeller, do you have any questions before we return to Mr. Kiddoo?

Senator **Rockefeller**. No, Mr. Chairman.

Senator **Warner**. You want to take on that pricing structure?

Mr. **Kiddoo**. Yes, I'll try. The point I was trying to make was that European markets will almost always yield, as far as we can determine, almost always yield a higher price FOB Colombia than the Middle Atlantic States of the United States, and simply because the United States is an exporter of coal and therefore the price of coal or the value of coal at Hampton Roads is related to its value in the importing market in Europe, and the differential in transportation between Colombia and Hampton Roads to Europe is less than the transportation from Colombia to Hampton Roads.

Mr. Hill mentioned a figure of in the low 20's—middle 20's for the cost of Colombian coal.

Senator **Warner**. My recollection was it was $25 dockside Colombia.

Mr. **Kiddoo**. I think that's the figure he quoted. And the freight rate he quoted is accurate. That makes the assumption that we would sell coal down to our bare bones cash cost.

Senator **Warner**. Are you going to give us your bare bones cash cost?

Mr. **Kiddoo**. It's in that general range.

Senator **Warner**. It's in that general range.

Mr. **Kiddoo**. So that while we could sell at that kind of a price into Hampton Roads, to us and in our planning of our strategy never seems that it will be attractive to do so as long as there are other markets in the world.

The netback from Hampton Roads would be comparable to or even lower than the netback under the same kind of terms from Japan or Hong Kong. So, therefore, it would not make a great deal of sense for us to sell coal into the coastal areas other than those that are extreme distances from the coal-producing fields.

It's also been mentioned that we might move Colombian coal up the Mississippi River, and I ask you to consider the logic that one of the reasons that that appears to be a possibility is that we have extremely cheap transportation on barges going up the river empty after hauling what down the river—coal.

Now to me there's a little weakness in the logic that there would be coal moving down the river to give us free haul of coal up the river. That's the logic for saying that we could penetrate some of the inland markets in the United States. I just don't accept that and it's not consistent with our analysis of the market.

With respect to the Great Lakes area and the St. Lawrence Seaway, I'm not sure what the economics are of western coal moved into that area, but I do know that recent sales prices of western coal and recent transportation rates from the West into the Great Lakes area generally have been at levels that I would not consider we could compete with in that area.

Senator **Warner**. Mr. Kiddoo, you put testimony in the record about the environmental aspects. I was quite interested in that. Would you care also to put something in the record with respect to these wage differentials?

Mr. KIDDOO. That's a more difficult thing to do in terms of wage differentials. I think wage costs per ton of coal is the sort of thing we can give you. Naked wage cost, as you can appreciate, in different currencies and different environments are not particularly useful.

Senator WARNER. Well, my point is that presumably out of this hearing will flow a good deal of information which frankly the miners themselves are quite interested in, and they would understand some comparison with respect to their wages today and what's being paid to comparable workers in Colombia.

Mr. KIDDOO. I believe that the Bureau of Mines stated this morning, I think quite correctly, that a comparison of wage costs must take into account productivity. Our wage levels are high relative to other employment in Colombia because we're in a remote area and have to attract a stable work force. We are providing several years of schooling for our people. They have a 1-year program in a national vocational school and a second year at a school which we operate in Barranquilla in Colombia. We have trained some 400-some skilled mechanics in that school already. And we have a high life support cost in the operation, as you have heard this morning from the fact that we've had to provide transport and housing and other support for life in the Guajira.

So our wage cost, I'll be glad to submit for the record information which compares wage costs. As a matter of fact, in one draft of the Bureau of Mines study I saw the wage levels and costs were something like 60 percent, as I recall it, 60 percent of the cost of the wage cost per ton of coal at our mine translated into a Montana mine might be.

Senator WARNER. So about half of what an American mine would be?

Mr. KIDDOO. Yes. Still very competitive pay in Colombia. We are not, not as a company anywhere we operate, paying below standards for that nation.

Senator ROCKEFELLER. I just might ask, too, Mr. Kiddoo, with respect to your indication that a million tons or less than 1 percent or whatever didn't really represent much of a concern for the future, that is in relation to the Colombia mine, and you indicate that Europe is targeted, and that the United States has no particular reason for concern.

Now West Virginia exports a great deal, so we obviously are familiar with the conditions overseas, whether it be in Europe or the Far East, and obviously we've watched as our exports have dropped. Now there could be two reasons for that. One is that we've been beaten out by others, or it could be that economic conditions in other places are such that the demand for coal is not that great.

And in fact Europe is a pretty good example of that, and one could speculate over the next 10 years certain political instability over there, a good deal of flight of capital, et cetera, that maybe there will be a continued downturn in the European economy. On the other hand, in Europe—and therefore the demand for coal might be somewhat less.

On the other hand, in your brochure you're talking about 15 million tons in phase 1, readily expandable. Your coal's going to have to go someplace. If there is not the demand in Europe that you project—and this is all projection——

Mr. KIDDOO. That's correct.

Senator ROCKEFELLER. My concern is still the post-1990 factor when the contracts run out, et cetera. Won't there be an increase in demand? But isn't there a good chance that if the European market continues soft or grows more soft that your outlet will in fact be the United States?

Mr. KIDDOO. Obviously what you say, Senator, is absolutely correct. We are basing that on forecasts of demand. The forecast of demand in Europe has come down progressively over the last several years versus the earlier enthusiastic forecasts of the late 1970's and early 1980's, much as it has, as has been pointed out this morning, in the United States.

We think we've got a pretty good handle on a conservative basis of the forecast of European import demands that would have them grow from, as I mentioned, about 69 million tons last year to something like 90 to 100 million tons. Within that framework we would expect to be able to place 10 to 11 million tons on more attractive terms if the market is stronger, on less attractive terms having to push someone aside in Europe if the market is weak.

But we would expect to be a strong competitor and able to move somewhere between 10 and 12 million tons or so by 1990 to Europe. Now with respect to the elbowing aside, you might say, that's West Virginia. I submit that the decline in exports to Europe from about 25 million tons in 1982 to 9 million tons in 1984 has already taken place—and without a ton of Colombian coal moving into Europe.

The competitors for the European market have already shown their strength against U.S. coal moving into Europe, and they are South Africa, the recovery of Poland, and Australia, more recently. So the impact of our being increasingly more competitive in Europe would probably have more impact on South Africa and maybe Australia than it would the United States.

With respect to us then turning our direction to Europe—to the United States, there may be some of that, but we would not expect that we would be able to show the kind of a price in Colombia that we could earn from Europe from the United States, except in certain areas, and they are basically New England, Florida, and the gulf coast of Texas where the cost of moving coal from U.S. sources is large.

Senator ROCKEFELLER. All right. Those are our areas, Senator Warner's and my areas.

Mr. KIDDOO. I understand that.

Senator WARNER. It's a sad note to close the hearing on.

Mr. KIDDOO. You mentioned this morning, Senator Rockfeller, our mine in Wayne County. You mentioned our mine in Wayne County, WV.

Senator ROCKEFELLER. You have down here in your remarks "since the market did not develop as envisioned at targeted inland U.S. locations."

Mr. KIDDOO. Yes, sir.

Senator ROCKEFELLER. And I just wondered if you would expand on that.

Mr. KIDDOO. May I make a comment on the Wayne mine?

Senator **Rockefeller**. Sure.

Mr. **Kiddoo**. Because I think our company's record in the coal business in the United States is something we're quite proud of. We commenced in the coal business in the United States and produced our first coal in about 1970, and last year we were the sixth largest coal producing company in the United States, and we accomplished that by grassroots mine development, not acquisition of companies.

And so that our record in the United States as a coal producer I think stands the test of anyone. We don't have all successes and Wayne was one that we are not pleased with the result. As you mentioned, I think, this morning, we put in quite a bit of investment in that mine in anticipation of it being a competitive source of coal. The markets that were targeted for that mine were basically from Michigan down through North Carolina.

Those inland markets did not develop. We had never contemplated exporting Wayne coal. We never believed from the beginning of the development of that mine that it would be an economical source for coal exports in competition with what we saw happening in the world market for coal. And so it was developed with the target of a market from Michigan down through North Carolina.

We had some technical problems when we started the mine, unanticipated technical problems, and the mine was below drainage level and in looking at other mines in the eastern Kentucky and southern West Virginia area we saw a number of others that were more competitive, lower cost operating mines than ours would be, and for that reason, with the outlook for the market and for the fact that we were not competitive with the best mines in that area, we chose to mothball the mine and it stays there right waiting for either a development in the marketplace or some other suggestion that there's an effective use we can make with that mine.

We regret it. Fortunately—I guess fortunate's not the right word, but the impact on people was relatively small because we had not ever gotten the mine up to production and we had, I think, a total of some 100 to 120 people who lost jobs in our closedown of that mine, because it was still in the developmental phase.

We don't win them all.

Senator **Rockefeller**. Mr. Chairman, I have several other questions I'd like to submit, but I shall do so in written form.

Senator **Warner**. Absolutely. I want to thank this panel of witnesses as well as the others.

To close off on that note, Mr. Kiddoo, that railroad that you have, my judgment is it's company-owned and not covered by the Staggers Act; would that be right?

Mr. **Kiddoo**. That's one of the unique features of that project, is we have built the port, the mine, and the railroad as a single unit. We think that that makes us a strong operator. There are also only 400 feet of elevation difference between the mine and the port, and the railroad has one small bend at the mine and then it's a straight line for 90 miles, and one small bend near the port. So it was a relatively easy railroad to build.

Senator **Warner**. Thank you.

[Whereupon, at 1:27 p.m., the hearing was adjourned.]

APPENDIXES

APPENDIX I

Responses to Additional Committee Questions

Department of Energy
Washington, DC 20585

July 12, 1985

Honorable John W. Warner
Chairman, Subcommittee on
Natural Resources Development
Committee on Energy and Natural Resources
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

On June 6, 1985, William A. Vaughan, Assistant Secretary for Environment, Safety, and Health, appeared before the Energy and Natural Resources Subcommittee on Natural Resources Development and Production to discuss the impact on the domestic coal industry resulting from foreign coal imports.

Following that hearing, you submitted written questions for our response to supplement the record. Enclosed are the answers to those questions, which also have been sent directly to the Committee staff.

If you have any questions, please call Cathy Hamilton of my staff on 252-4277. She will be happy to assist you.

Sincerely,

Robert G. Rabben
Assistant General Counsel
for Legislation

Enclosures

POST-HEARING QUESTIONS AND ANSWERS

Relating to the

JUNE 6, 1985, HEARING

before the

SUBCOMMITTEE ON NATURAL RESOURCES DEVELOPMENT AND PRODUCTION
COMMITTEE ON ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE

WITNESS: WILLIAM A. VAUGHAN

QUESTION FROM THE MINORITY

Question 1: According to the Department's study on rail deregulation, using national average statistics, rail rates for coal have increased less than one percent per year since 1980. Your calculation of rail rate increases varies tremendously from calculations made by captive shippers who claim, in terms of constant dollars, that coal prices at the mine-mouth fell 18 percent from 1976 to 1981, while constant dollar rail rates increased 40 percent.

- o What is the difference between these two sets of calculations in terms of how they were figured?
- o Is it simply that DOE adjusted its calculation for inflation?

Answer: The first difference between these estimates is that they cover different periods. The Office of Policy, Planning, and Analysis staff report focused on the post-1980 period to specifically evaluate the effect of the Staggers Rail Act. According to the description provided, the captive shipper data covers the period 1976 to 1981, most of which was in the pre-Staggers period. In its analysis, PPA also examined the pre-Staggers period (1976-1980) and found that rail rate and rail cost increases outpaced inflation in the economy overall in that period (as measured by the GNP deflator), in large part reflecting rising diesel fuel prices. However, the increase in rail rates for the period averaged about 14 percent while rail cost increases averaged about 13 percent.

As demonstrated above, shifting to comparable periods does explain some of the difference, but discrepancies remain. Because the question does not specify the sources of the captive shippers' estimates, PPA cannot conclusively determine what other factors may be influencing the differences in findings.

It does not appear, however, that a substantial portion of the difference can be attributed to failure of either group to adjust for inflation. According to the information provided, the captive shippers estimates are already adjusted for inflation, since they are in constant dollars. Nevertheless, some of the difference may be attributable to the use of different indices. PPA used the GNP deflator to adjust for inflation; we do not know what index the captive shippers used.

Another possible difference is the rail rate data. PPA used the Bureau of Labor Statistics Producer Price Index. We chose the BLS data because it tracks changes in rates for a sample of the same rail moves (i.e. same origin, same destination) over time. This type of data base allows examination of changes in rail rates themselves, and controls for factors that are not related directly to rates, such a changes in origin, destinations, or length of hauls. Whenever the database is not controlled for changes in length of haul, estimates will not provide a true indicator of changes in rail rates. Some estimates measure the average amount spent to move a ton of coal by rail, an amount that one would expect to be increasing since the distances coal is carried is increasing.

PPA's report provides no information on changes in coal prices. Minemouth coal prices are typically more volatile than rail prices, increasing in periods when demand outpaces capacity and falling in real terms in situations where there is excess capacity.

QUESTION FROM THE MINORITY

Question 2:	You have concluded in your study that the Staggers Rail Act of 1980 does not need amending, but rather that the regulations implementing the Act should be revised to remedy current problems. Many proponents of amending the Act claim that revising the regulations only is an inadequate solution to the captive shipper situation. They contend that the problem really lies in the ICC's implementation and oversight of the Act and its regulations. o Please respond to this. o Do you believe that revising the regulations only is an adequate response to the captive shipper dilemma if the ICC is failing to follow the intent of the Staggers Rail Act, as many critics contend?
Answer:	The regulations promulgated by the ICC determine how the ICC implements and oversees the Staggers Rail Act. Therefore, it does not appear that PPA's conclusion that the Staggers Act is sound and that technical changes in the regulations will remedy outstanding problems is compatable with the captive shippers' finding that the problem lies with the ICC's implementation and oversight of the Act and its regulations.

The ICC has made substantial progress in its implementation of the Staggers Rail Act, a task which has not been easy, given the complex economic theories that underlie both the Staggers Act and the regulations. As you know, the Staggers Act endorses a system of differential or demand based pricing. According to economic theory, differential pricing is the best means available for assuring maximum consumer benefits and the long run viability of the rail system. In adopting this policy, Congress recognized that those shippers that have few options would be vulnerable to large rate increases and therefore required the ICC to protect captive shippers.

Consistent with the information provided by the Committee, PPA is not aware that captive shippers have claimed that the Staggers Act's emphasis on differential or demand based pricing is unsound. Moreover, PPA has found that the ICC's concepts of market dominance and constrained market pricing (as proposed in Ex Parte 347) are consistent with the Staggers Act requirement that differential pricing be used and that regulatory protection be provided for captive shippers. Therefore, we do not believe that the ICC has failed to follow the intent of the Staggers Act.

The PPA study did find that some of the technical criteria used to implement the concepts of market dominance and constrained market pricing are cumbersome, poorly defined, or possibly biased. Addressing these problems, which are described in detail in the report, would improve the protection provided captive shippers and help to continue the progress toward a viable rail system, the primary goal of the Staggers Act.

QUESTION FROM THE MINORITY

Question 3: In your study did you look at the effect alternative modes of transportation would have on rail costs for the transportation of coal? If not, will this be considered in phase two of the study?

Answer: In each of the nine utility case studies, we examined estimated costs of alternatives, particularly intra- and inter-modal alternatives, to determine how effective they would be in keeping the rates currently charged by the rail carrier serving the plant(s) from increasing. The results varied considerably, according to site - specific factors.

In some cases, we found that the rail carrier's current rates are close to the costs of possible alternative carriers. We termed these shippers "more competitive," because the presence of a second alternative at a similar cost will help to constrain rate increases and (in cases where current rates exceed the actual cost of the alternative service) may help to lower them.

In other cases, the cost for any potential competition is substantially higher than the rate charged by the existing railroad. These shippers would be less vulnerable to rail rate increases if competition at a price that is comparable or lower to existing rail rates could be generated.

QUESTION FROM THE MINORITY

Question 4: What did you conclude with respect to the ICC's construct of "revenue adequacy?"

Answer: The PPA interim draft technical report on the effect of partial rail deregulation on coal and electric utilities confirms several preliminary findings on "revenue adequacy". These are currently being reviewed by the public and other government agencies. They in no way represent the Administration's position on these questions. In addition, the Railroad Accounting Principles Board is expected to address questions of how to measure revenue adequacy.

The ICC standard compares the railroad's rate of return on investment to the "current nominal cost of capital," which the Commission determined to be 15.3 percent in 1983. No Class I railroad even came near meeting the ICC's standard of "revenue adequacy" in that year. However, several railroads' rate of return on equity, a key indicator of a stock's value, exceed the average return for other industries.

There are a number of possible causes for this discrepancy. One concerns the quality of the data used to measure revenue adequacy, and its comparability with the data used to examine other industries. The determination of railroad financial viability is complicated by the current state of railroad accounting. The ICC has historically used Replacement, Retirement, Betterment" accounting to measure a significant portion of the railroads' assets. This system is unique to the rail industry, making it difficult to compare railroad earnings with those in other industries. While the ICC has begun collecting this data using the more common depreciation accounting methodology, it has decided to continue using the RRB accounting data to measure revenue adequacy until such time as it can adjust depreciation accounting for the effects of inflation.

A second issue of concern is the methodology used to calculate revenue adequacy. Based on its interpretation of the Staggers Act goal, the PPA study found that the most important criterion for "revenue adequacy" is the ability to attract equity capital. This is because common equity holders and railroad management assume the greatest risks and rewards of a railroad's operating performance, and federal regulation is implicitly directed toward influencing them. The current standard, based on "return on investment," does not directly measure the attractiveness of an investment to equity investors, because it does not measure the cost of a new (i.e., marginal) equity investment. Moreover, the ICC use of ROI allows the railroad to earn a current return on embedded debt (much of which was incurred when interest rates were lower). This also increases the effective return to equity investors, while widening the measured gap between fundamentally healthy railroads and what is represented statistically as "revenue adequacy." In addition, PPA found the ICC practice of allowing railroads to earn a return on deferred taxes has had the effect of increasing the return required by a railroad to achieve revenue adequacy by about 2 to 3 percentage points.

Although the data available to PPA were insufficient to quantify the effect of all the specialized accounting factors on the measurement of "revenue adequacy," it is possible to estimate the effect of selected ICC methods for valuing assets and calculating the appropriate return. When the current ICC return on investment methodology was applied to a sample utility, Pennsylvania Power and Light (PP&L), the amount of revenue that PP&L would need to meet the standard was more than 20 percent higher than is now allowed by its state public utility commission (implying that electric rates would need to increase by approximately the same amount to bring the company to "revenue adequacy"). The "allowed" return to PP&L common equity holders would almost double.

Any distortions introduced by the methodology currently in use will be exacerbated if the ICC adopts a new formula it has proposed, which would revalue all railroads assets to the current cost of reproducing them. Such a standard, which would be more difficult to measure and administer, increases the amount of money that the railroads would need to earn to be considered "revenue adequate", because many of the existing assets are old (and thus are now carrying relatively low book values). If this new standard is implemented fairly, the ICC will have to take on a new task -- auditing the values railroads assign to their assets to determine whether the threshold return is being inflated by including assets that are not likely to be replaced, because their usefulness has expired (or is expiring).

United States Department of State

Washington, D.C. 20520

JUN 26 1985

Dear Mr. Chairman:

Enclosed are answers to the follow-up questions from yourself and Senator Nickles contained in your letter of June 7 to Deputy Assistant Secretary for International Energy and Resources Policy Allan Wendt. The questions arose during the June 6 hearing on U.S. coal imports before the Subcommittee on Natural Resources Development and Production. The answer to Senator Nickles was written by the Export-Import Bank.

We welcome the opportunity to work with you to strengthen the U.S. coal industry and promote its exports. Please do not hesitate to contact us if we can provide further information.

With best wishes,

Sincerely,

William L. Ball, III
Assistant Secretary
Legislative and Intergovernmental Affairs

The Honorable
John W. Warner, Chairman,
Subcommittee on Natural Resources
Development and Production,
United States Senate.

Enclosures:

As stated.

Question from Senator Warner: In your statement you point out that the "current strong dollar makes imported coal cheaper. A fall in the value of the dollar would make imported coal more expensive, and less would be imported." Is this point relevant in the case of U.S. utilities who have signed long-term contracts for the delivery of foreign coal? If so, please explain.

Our understanding is that most coal imported into the U.S. will be purchased on the spot market or under short-term contracts. The longest term U.S. contract for imported coal we are aware of is for five years only; moreover, it provides for annual renegotiation of price and quantity.

Question from Senator Nickles: In addition to data on interest rate and term of loans from Export-Import Bank regarding Colombian coal development, what are the direct costs to the U.S. of such loans (i.e. defaults, administrative, etc.)?

(The following answer was written by the Export-Import Bank.)

The Export-Import Bank is supporting the export of up to $850 million of U.S. goods and services to Carbocol under the credit terms and conditions outlined in Appendix A.

In 1981, when Carbocol initially approached ExIm for financing, several factors weighed heavily in favor of authorization of the project loan. The Republic of Colombia was committed to natural resource development and specifically the Carbocol coal project, but without offering any investment incentives or export subsidies. In the absence of an Eximbank competitive financing package for U.S. suppliers, significant economic and employment benefits would have accrued to foreign suppliers whose official export credit agencies had made attractive financing offers to the Colombians. Carbocol had received financing commitments from the export credit agencies of Canada, Japan, the United Kingdom, France, Germany, Holland, Belgium, Brazil and Sweden. Agreements have subsequently been concluded with the first three export credit agencies to finance their sales at 11.9%, 7.8%, and 7.75%, respectively.

Eximbank, seeking to reduce the credit subsidy, authorized Carbocol's first two credit tranches at 12%, which was closer to market rates in effect at the time but sufficiently competitive to permit U.S. supplier contracts to be concluded. By the time the third Carbocol credit tranche was approved by Eximbank in March, 1985, the OECD official export credit arrangement was operating under a system with adjustable rates tied to commercial market rates. Thus, the minimum OECD rate for dollar credits to Colombia was 11.2%, the rate at which all export credit agencies would have been prepared to finance their suppliers.

In addition to these fixed interest rates on the Carbocol credits, Eximbank routinely charges a 2% credit application fee payable by the borrower, a commitment fee of 0.5% on the undrawn Exim funds, a 0.5% guarantee fee on the funds disbursed by the private lenders but subject to Exim's guarantee, and a guarantee commitment fee of 0.125% on the undisbursed guaranteed funds. All fee and interest payments by Carbocol have been timely. The repayment stream exceeds Eximbank's administrative expenses on the transaction.

As of May 30, 1985, American firms have actually sold over $500 million in equipment and services for the Carbocol project. An equipment procurement list, by state, is attached as Appendix B. Using Department of Commerce employment figures which calculate that $1 billion in U.S. exports supports 25,000 man-years of U.S. employment, the export potential of the Carbocol credit will support 21,250 man-years of U.S. jobs. Moreover, it is estimated that small business will supply approximately 10% of this procurement.

In conformity with the requirements of the Export-Import Bank Act, Congress was advised in 1982 and 1985 of the terms and conditions of Eximbank's proposed financing for Carbocol. The letters attached at Appendix C were sent to Vice President Bush in his capacity of President of the Senate.

Appendix A

CARBOCOL

	Tranche I	Tranche II	Tranche III	Total
Date Authorized:	August 10, 1982	September 30, 1982	March 7, 1985	
Financing Plan:				
Cash Payment	$ 75,000,000 (15%)	$ 22,500,000 (15%)	$ 30,000,000 (15%)	$127,500,000
Eximbank Credit	375,000,000 (75%)	112,500,000 (75%)	130,000,000 (65%)	617,500,000
Private Credit Guaranteed by Eximbank	50,000,000 (10%)	15,000,000 (10%)	40,000,000 (20%)	105,000,000
U.S. Costs	$500,000,000	$150,000,000	$200,000,000	$850,000,000
EIB Interest Rate*	12.0%	12.0%	11.2%	
Credit Application Fee	2.0%	2.0%	2.0%	
Guarantee Fee	0.5%	0.5%	0.5%	
Credit Commitment Fee	0.5%	0.5%	0.5%	
Guarantee Commitment Fee	0.125%	0.125%	0.125%	
Repayment Term	30 S/A beginning 7/10/87 for disbursements through 12/31/86 and 7/10/90 for disbursements between 1/1/87 through 12/31/89.	See term for Tranche I	20 S/A beginning 7/10/90.	
Minimum OECD rates at time of EIB commitment	10.75%	10.70%	11.2%	

*The overall credit rate to CARBOCOL is a blended rate between EIB's fixed rate and the commercial rates which apply to the cash payment and balance of financing.

Appendix B

U.S. EQUIPMENT SALES TO
THE EL CERREJON PROJECT IN COLOMBIA

(through 5-23-85; does not include purchases by Carbocol)

State	$ Purchases
Alabama	334,985
Arizona	129,540
Arkansas	1,300
California	61,069,545
Colorado	1,759,140
Connecticut	976,630
Delaware	105
D.C.	3,450
Florida	35,371,140
Georgia	1,342,990
Idaho	2,339,650
Illinois	20,665,945
Indiana	1,996,865
Iowa	422,700
Kansas	203,030
Kentucky	613,545
Louisiana	19,444,560
Maine	2,280
Maryland	153,115
Massachusetts	17,388,190
Michigan	5,087,095
Minnesota	1,729,155
Mississippi	1,259,980
Missouri	2,789,270
Montana	5,080
Nebraska	655,470
Nevada	580
New Hampshire	84,675
New Jersey	10,480,130
New Mexico	7,000
New York	32,495,485
North Carolina	134,560
North Dakota	48,335
Ohio	26,122,330
Oklahoma	637,020
Oregon	1,104,745
Pennsylvania	21,136,295
Rhode Island	3,135
South Carolina	440,790
South Dakota	480
Tennessee	160
Texas	41,149,520
Utah	1,865,780
Vermont	10,155
Virginia	59,360
Washington	2,026,410
West Virginia	215,700
Wisconsin	14,830,455
Wyoming	3,455
TOTAL	$ 328,601,310

Appendix C

President and Chairman

March 14, 1985

Dear Mr. President:

By letter of July 13, 1982, pursuant to Section 2(b)(3)(i) of the Export-Import Bank Act of 1945, as amended, Eximbank submitted a statement to the United States Senate with respect to a transaction involving U.S. exports to Colombia. A copy of that letter is attached.

The project involved is a large opencast coal mine located in the Cerrejon region of northeast Colombia. It is being developed as a joint venture between Carbones de Colombia S.A. (Carbocol) and International Colombia Resources Corporation (Intercor), a wholly-owned affiliate of Exxon Corporation. Carbocol and Intercor are each responsible for financing half of project costs. Intercor will be the project operator. The project includes a 15 million metric ton per year steam coal mine and related infrastructure. Total capital costs are currently estimated at $3.3 billion. Full design capacity is expected to be reached in 1989; however, initial coal shipments began in February 1985.

Eximbank's letter of July 13, 1982, referred to financing for Carbocol covering $500 million of U.S. export sales to the project, although it was stated that the Bank would be in a position, because of an outstanding preliminary commitment, to increase its financing for additional U.S. procurement of up to $350 million. We therefore now wish to advise that financing for 85% of that total of $850 million in export sales has been authorized in three tranches, as follows:

Date Authorized:	August 10, 1982	September 30, 1982	March 7, 1985
Financing Plan:			
Cash Payment	$ 75,000,000 (15%)	$ 22,500,000 (15%)	$ 30,000,000 (15%)
Eximbank Credit	375,000,000 (75%)	112,500,000 (75%)	130,000,000 (65%)
Private Credit-Guaranteed by Eximbank	50,000,000 (10%)	15,000,000 (10%)	40,000,000 (20%)
Total U.S. Costs	$500,000,000	$150,000,000	$200,000,000

EXPORT IMPORT BANK OF THE UNITED STATES WASHINGTON D.C. 20571 CABLE EXIMBANK TELEX 89-461

Date Authorized:	August 10, 1982	September 30, 1982	March 7, 1985
Eximbank Interest Rate:	12.0%	12.0%	11.2%
Eximbank Fees:	2.0% Credit Application Fee 0.5% Credit Commitment Fee 0.125% Guarantee Commitment Fee 0.5% Guarantee Fee		
Repayment Terms:	30 semiannual installments beginning 7/10/87 for disbursements through 12/31/86, and 7/10/90, for disbursements from 1/1/87 through 12/31/89 with private credit repaid from early installments.		20 semiannual installments beg. 7/10/90 with private credit paid from early installments.
Security:	Guarantee by the Republic of Colombia		

The financing authorized March 7, 1985, was based on a preliminary commitment approved for issuance to Carbocol on June 24, 1984, and covered amounts that are expected to be disbursed in the final 2 - 2½ years of project construction. U.S. exports to be supported by the most recent financing package include off-highway dump trucks, bulldozers, heavy electric mining shovels, bottom dump coal cars, rock drills as well as supplies and engineering services. Financing competition for many of these items continues to be offered by export credit agencies in Canada, Japan and the U.K.

We trust this information will be of assistance in keeping Congress advised of Eximbank support for the project. If Eximbank loan or guarantee authorizations are contemplated beyond the present level we will submit a new statement of notification to Congress in accordance with the provisions of the Export-Import Bank Act.

Sincerely,

William H. Draper III

The Honorable George Bush
President of the Senate
S-212 U.S. Capitol
Washington, DC 20510

EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON, D.C. 20571

PRESIDENT
AND
CHAIRMAN

CABLE ADDRESS "EXIMBANK"
TELEX 89-461

July 13, 1982

Dear Mr. President:

Pursuant to Section 2(b)(3)(i) of the Export-Import Bank Act of 1945, as amended, Eximbank hereby submits a statement to the United States Senate with respect to the following transaction involving U.S. exports to Colombia.

A. Description of Transaction.

1. Purpose.

Eximbank is prepared to authorize a direct credit in the amount of $375 million and a financial guarantee in the amount of $50 million to Carbones de Colombia, S.A. (Carbocol) to assist in financing the export to Colombia of goods and services of United States manufacture or origin totaling $500 million for the construction of a coal development project located in the Cerrejon region of northeast Colombia. The project includes a 15 million metric ton per year coal mine and related infrastructure consisting of a 150 KM railroad, coal handling equipment and a new port development.

This project will be developed as a joint venture between Carbocol and International Colombia Resources Corporation (Intercor), a wholly owned affiliate of Exxon Corporation. Carbocol and Intercor will each be responsible for half the project costs. Intercor will be the operator of the project. Carbocol's share of total costs will be funded from equity contributed by the Government of Colombia and from borrowed funds, including the Eximbank financing.

The total cost of the project is estimated at $3.448 billion with potential foreign costs for equipment and engineering services of $1.5 billion, including United States costs estimated at $938.7 million, part of which will be the subject of the Eximbank financing. The construction period is estimated at 55 months with physical completion set for December 1986. Full design capacity is expected to be reached in December 1989.

2. Background.

The project is the largest industrial development in the history of Colombia and competition has been intense from official foreign export credit agencies to induce Carbocol to source equipment from their respective suppliers. Government export credit agencies of Japan, Canada, the U.K., France, Germany, Holland, Belgium, Brazil and Sweden are offering highly competitive financing terms, and official governmental support is also reported from Italy, Mexico and Spain. Earlier Eximbank efforts to achieve a common line on interest rate were unsuccessful, and financing terms have become an important factor for Carbocol in selecting procurement sources.

The tendency toward U.S. procurement which might be anticipated from the roles of Intercor, as operator, and Morrison-Knudson Construction Company (M-K), as construction manager and engineer, has been offset by the fact that most of the foreign procurement will be funded by Carbocol borrowings. As a result Carbocol has assumed a greater role in the procurement process by tying procurement decisions to availability of attractive financing.

In an effort to maximize U.S. procurement for the project Eximbank issued a preliminary commitment on November 12, 1981, as amended on February 8, 1982, to Carbocol offering financing terms which become progressively more attractive depending on the amount of procurement made in the United States up to a maximum of $850 million. In response to that offer Carbocol has applied for a credit based on $500 million of U.S. procurement which amount qualifies for the most attractive terms offered under Eximbank's preliminary commitment covering procurement from $400 million up to $850 million. Although Carbocol at this time has applied for financing based on procurement of only $500 million, it has requested Eximbank to extend the preliminary commitment for the additional $350 million until September of this year. Eximbank proposes to approve such extension so that on appropriate application by Carbocol Eximbank will be in a position to increase its financing for the additional U.S. procurement.

3. Identity of the Parties.

Carbocol is a government-owned Colombian corporation established in 1976 to promote the development of the Colombian coal industry. It is under the control of the Ministry of Mines and Energy and is owned by five other Colombian government agencies as follows:

Proexpo - export promotion agency	41.1%
Ecopetrol - state oil company	31.4
I.F.I. - state oil company	22.1
Ingcominas - mine research agency	2.7
Ecominas - mine exploitation agency	2.7
Total	100.0%

The Government of the Republic of Colombia, acting through its Ministry of Finance, will guarantee the payment of all indebtedness owed by Carbocol to Eximbank and the private lender guaranteed by Eximbank.

4. Nature and Use of Goods and Services

A summary of the U.S. goods and services for which the Eximbank financing will be requested is attached to this letter as Appendix A, not all of which will be eligible for financing. There will be no single dominant U.S. supplier, but rather numerous suppliers for the variety of equipment that will be required. M-K, in addition to its role as construction manager and engineer for the project, will also act as exporter of record and assume the responsibility for marshalling the some 380-odd separate purchases from the individual suppliers.

Since procurement involves hundreds of U.S. suppliers with no single prime supplier the resulting effect on employment in the United States can only be estimated. Using U.S. Department of Commerce data on employment impact, Eximbank estimates that the project has the potential for maintaining 12,500 man years of employment throughout the United States. In addition, follow on purchases of spare parts are estimated to be $36 million per year over the life of the financing.

B. Explanation of Financing

1. Reasons.

The proposed Eximbank direct credit of $375 million and financial guarantee of $50 million will facilitate the export of $500 million of U.S. goods and services with a possible additional $350 million of U.S. procurement if Carbocol avails itself of the balance of the preliminary commitment which Eximbank proposes to extend as noted above. The favorable impact on U.S. employment resulting from these exports would not be possible without the Eximbank financing terms offered to meet intensive foreign competition.

The Carbocol project will start exporting steam coal in the mid-1980s, primarily to Western Europe. Given the rapid growth projected for West European steam coal demand and the preference of the buyers for diversified, stable sources of supply, there appears to be only limited potential for the displacement of U.S. steam coal sales by sales from the Carbocol project. On the other hand, the benefits to U.S. output and employment and to the U.S. trade balance resulting from the $500 to $850 million of U.S. equipment and services exports should outweigh any costs associated with potential "lost" U.S. coal exports. Therefore, the Carbocol project is expected to have a net beneficial impact on the U.S. economy.

2. The Financing Plan.

The total cost of U.S. goods and services to be exported from the United States for the project is estimated to be $500 million based on the present application of Carbocol with a possible increase of an additional $350 million, which will be financed as follows:

	Present Application	Potential Application	Percent of U.S. Costs
Cash Payment	$ 75,000,000	$ 52,500,000	15
Eximbank Credit	$375,000,000	262,500,000	75
Financial Guarantee	$ 50,000,000	35,000,000	10
Total	$500,000,000	$350,000,000	100

The financial guarantee of Eximbank will be available to a commercial bank or the Private Export Funding Corporation (PEFCO) which will extend a credit on behalf of the U.S. suppliers at the same interest rate as that borne by the Eximbank credit.

a) Eximbank Charges. The Eximbank Credit will bear interest at the rate of 12 percent per annum, payable semiannually. Commitment fees will be charged on the undisbursed portion of the Eximbank Credit at the rate of 1/2 of 1 percent per annum and on the undisbursed portion of the credit guaranteed by Eximbank at the rate of 1/8 of 1 percent per annum. A guarantee fee of 1/2 of 1 percent per annum will be charged on the disbursed and outstanding amount of the credit guaranteed by Eximbank. A credit application fee of 2 percent of the amount of the Eximbank Credit will be payable by Carbocol in six semiannual installments beginning six months after the execution of the Credit Agreement. Any unpaid balance of the fee will bear interest at the rate of 12% per annum, payable semiannually.

b) Principal indebtedness incurred by Carbocol under the Eximbank Credit and the credit guaranteed by Eximbank will be repaid by Carbocol in thirty approximately equal semiannual installments beginning July 10, 1990. The credit guaranteed by Eximbank will be payable out of the early installments and the Eximbank Credit will be payable out of the later installments.

If the total Carbocol procurement of U.S. goods and services is less than $400 million, the repayment terms will be shortened and the percentage of U.S. costs financed by the Eximbank Credit will be reduced.

Attached is additional information on Eximbank activity in and economic data on Colombia.

Sincerely,

William H. Draper III

William H. Draper, III

Attachments

The Honorable
George Bush
President of the Senate
S-212, U.S. Capitol
Washington, D.C. 20510

APPENDIX "A"

POTENTIAL U.S. SUPPLIED EQUIPMENT AND SUPPLIES

Major Area	Equipment Type	No.	CARBOCOL/INTERCOR Estimated Cost,* U.S. $ Million	Eximbank Estimated Cost*
Mine	27 yd^3 Electric Shovels	17	$89	$99
	170 Ton Dump Trucks	152	201	225
	Blast Hole Drills	19	20	22
	4.5 yd^3 Backhoes	6	6	7
	Bulldozers, 400 HP	17	7	8
	Bulldozer with Rippers, 400 HP	37	17	20
	Rubber Tired Bulldozers, 300 HP	18	5	6
	Scrappers (30 yd^3)	7	4	5
	Front End Loaders, 23 yd^3	9	13	14
	Motor Graders	13	4	5
	Water Trucks	11	16	18
	Electric Substation (with Cable)	17	3	4
	Coal Loading and Preparation	1	5	6
	Miscellaneous	--	11	12
	Cranes	14	2	2
	Forklifts	13	1	1
	Buses	90	5	6
	Pumps	--	2	2
	Total Mine		$411	$462
Railroad	Locomotives (3,000 HP)	8	$ 10	$ 11
	Coal Cars (100 ton)	214	18	20
	Tank Cars	41	4	5
	Flat Cars	12	1	1
	Railroad Maintenace Equipment	--	2	2
	Rails	27,000 tons	33	38
	Wood Railroad Ties	363,000	18	20
	Control System	--	6	7
	Total Railroad		$ 92	$104

APPENDIX "A"
(Cont'd)

r Area	Equipment Type	No.	CARBOCOL/INTERCOR Estimated Cost,* U.S. $ Million	Eximbank Estimated Cost*
tric Power	Power Distribution	--	$ 6	$ 6
ly and stribution	Supply and Distribution	--	2	2
	Support Generators	--	5	6
	Total Electric		$13	$14
t	Tugboats	4	25	28
	Motor Launch (Pilot Boats)	2	1	1
	Coal Unloading System	--	4	5
	Stacker/Reclaimer	--	22	25
	Conveyors	--	20	23
	Bulldozers	--	2	2
	Shiploader	--	9	10
	Total Port		$83	$94
unications d Navaids	Total C & N		15	17
s	Remelt Center (Foundry)	--	2	2
	Large Equipment Rebuild	--	15	16
	Small Equipment Rebuild	--	2	2
	Equipment Tooling	--	2	3
	Total Shop		$21	$23
craft	Total Aircraft (727 or 737 Type)		$28	$30
	GRAND TOTAL		$663	$781

*Prices are Estimated F.O.B. Port

POTENTIAL ENGINEERING CONTRACTS
TO U.S. FIRMS

Contract Value	$ Value	
Dredging	$40 Million	47 Million
Coal Pier	50 Million	59 Million
Commodities Pier	60 Million	71 Million
Small Boat Pier	5 Million	6 Million
Total Contracts	$155 Million	$183 Million

APPENDIX B

Colombia
(Economic Data and Eximbank Activity)

All values in US $ million unless otherwise indicated	1980	1981	81/80 %
INCOME, INVESTMENT, PRODUCTION, EMPLOYMENT			
GNP at current prices	33,508	36,653	9.4%
GNP at constant 1975 prices	11,401	11,766	3.2%
Per Capita GNP, current prices	1,218	1,276	4.8%
Fixed investment	7,533	8,691	15.4%
Indies (1977 = 100)			
Industrial Production	115	112	-2.3%
Agricultural Production	118	122	+3.1%
MONEY AND PRICES			
Money supply	4,508		
Long term foreign borrowing	327		
Discount rate	30%	30%	0
Indies (1975 = 100)			
Wholesale prices	290.8	360.7	24.0%
Consumer prices	297.3	379.0	27.4%
BALANCE OF TRADE AND PAYMENTS			
Current account balance	-618	-1,197	
Balance of trade	-328	-1,456	
Exports, to	4,092	3,127	
Imports, to	4,420	4,583	

EXIMBANK EXPOSURE

As of the end of April 1982, Eximbank exposure in Colombia involved:

	(Millions of $)
Short term	$ 49.9
Medium term	48.9
Credits & Financial Guarantees	166.8*
(*Includes $85.4 undisbursed)	$ 265.6

Additional potential:

Pending Credit Applications	$ 23.3
Outstanding PCs	489.9
Pending PC Applications	92.0
Referenced transaction	425.0
	$1,030.2

Estimated total potential:	$1,295.8

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

JUL 10 1985

Honorable John W. Warner
Chairman, Subcommittee on Natural Resources
  Development and Production
United States Senate
Washington, D.C. 20510

Dear Senator Warner:

Enclosed are responses to the questions submitted to us in your letter of June 7, 1985 as follow-up to the coal import hearing on June 6th by the Subcommittee on Natural Resources - Development and Production.

We appreciated the opportunity to appear before your subcommittee and present the results of our study on the potential for coal imports. We welcome working with you and your subcommittee to promote U.S. coal exports and a healthy domestic industry that can be competitive in the world markets.

Sincerely,

Michael T. Kelley
Deputy Assistant Secretary
for Basic Industries

Enclosures

Questions and Answers for the Record
Senator John D. Rockefeller, IV

QUESTION

Your study postulates coal imports based on conditions present in the utility marketplace today. What happens to the study results if you begin to change certain variables, such as increased coal-fired utility capacity?

ANSWER:

The study results or the potential volume of coal imports would be sensitive to assumptions regarding the capacity and utilization of coal-fired generating plants in 1990. Increased coal-fired plant capacity and higher utilization factors would add to the market potential for foreign coal. Other considerations, such as those discussed in chapter IV in the report, could also make the U.S. utility market an attractive market prospect, particularly for foreign coals with very low sulfur-content.

QUESTION:

What is the effect of long-term contracts on the coal import question; did your study at all take into account that in the early 1990's many long-term utility coal contracts will expire?

ANSWER:

In the study it was assumed that only 10 percent of the tonnage under long-term contracts would be available for replacement with foreign coals assuming the quality and cost saving assumptions were also met. Since 90 percent of the coal receipts by the 41 plants identified as having potential to import were under contract, the potential volume of imports was restricted to 9 percent of total contracted tonnage.

The study did not analyze the potential for steam coal imports beyond 1990. It was recognized that a substantial number of long-term contracts, particularly for subbituminous coal, would expire in the early to mid 1990's.

QUESTION:

On the same basic point as question 2, did your study consider whether utilities might increasingly turn to imports for a larger portion of supply as a way of exerting negotiating leverage with coal producers, and more particularly, railroads, on the delivered price of coal?

ANSWER:

The study did not attempt to analyze the possibility of utilities importing a sufficient tonnage of coal to create a competitive situation to secure lower prices from coal producers and railroads. Such a possibility was recognized, but no ready means was available to quantify the potential import volume under these conditions.

QUESTION:

In your case 2 assumptions about imports -- where you find that some 17.7 million tons of coal might be imported -- are you adjusting at all for a raising or lowering of rail rates? Would you adjust your findings if the Congress were to enact certain reforms to the implementation of the Staggers Rail Act?

ANSWER:

No adjustments were made in the analyses for a possible raise or decline in rail rates. A basic assumption in both cases was that the relative difference in delivered prices between domestic and foreign coals would be the same in

1990 as existed in 1983. Implicit in this assumption in that the rail rates or transportation costs in 1990 would have the same proportional ratio to total delivered costs as existed in 1983. If rail rates were to decline significantly for any reason, the volume of potential imports would decrease. Conversely, a significant increase in rail rates would increase the potential volume of imports.

QUESTION:

How did you arrive at the 25 cents per million BTU figure as the amount that a utility would have to save to go to foreign coal? Wouldn't a utility jump at a lesser figure if they thought they could use that as leverage against new coal contracts or rail rates, or both?

ANSWER:

A minimum savings of 25 cents per million BTU was selected because it appeared to adequately compensate a utility for the increased indirect expenses associated with a new supply source based on foreign coal. This figure was suggested by the fact that utility plants in Europe accept this differential in price among its coal import suppliers. It is likely that each utility with its own coal procurement specifications and objectives would set its own minimum differential on cost savings which could be well below the 25 cents used in the study. A lower savings differential could still create a competitive situation bringing pressure on domestic suppliers to reduce their prices.

QUESTION:

To what extent do coal imports increase in relation to a greater saving in the cents per million BTU figure; did you arrive at any correlation between the two numbers?

ANSWER:

No analysis was made to determine the correlation between potential volume of coal imports and minimum cost savings. As would be expected, the higher the minimum cost savings required, the lower the potential volume of imports.

QUESTION:

In your statement, you indicate that the Administration will continue to work aggressively on exports of American coal. Yet the actual coal exports have dropped significantly since 1981. Does the Administration have a position on the court case currently pending in Federal Court in Delaware where the action of Delaware to block loading of large supercollier coal vessels is effectively blocking America's ability to export coal at a greatly improved price?

ANSWER:

The phenomenal growth in U.S. coal exports beginning in 1979 and peaking in 1981 was due to a number of factors, principal ones being the sharp increase in coal use precipitated by high oil prices and disruptions in coal supplies from Poland and Australia. The U.S. market share began declining in 1982 for several reasons, mostly due to low cost foreign production capacity coming on stream and the high value of the dollar forcing U.S. coal exporters into being marginal high cost suppliers.

The Department of Commerce is fully aware of the Delaware Supreme Court's decision to prohibit topping-off of coal colliers in Delaware Bay and the adverse implications of this decision on the goals of the National Coal Export Policy. International Trade Administration/Basic Industries Sector in Commerce actively sought and received Justice Department concurrence to file an "Amicus Curiae" in the United States District Court for the District of Delaware in support of Norfolk Southern's efforts to establish a topping-off operation in Delaware Bay. On May 30, 1985, a "Brief of the United States as "Amicus Curiae" was filed with the federal district court apprising the court that prohibition of the topping-off operation adversely affects the foreign commerce interests of the United States and undermines the achievement of the goals of the National Coal Export Policy.

QUESTION:

Mr. Kelley, in your statement you cite Section 201 of the 1974 Trade Act as a provision that "offers administrative relief where rising imports injure, or threaten to injure, a domestic industry." Please explain further the details of this provision. Has it ever been invoked by the Department? If so, explain the kinds of circumstances in which this section of the law has been used to provide administrative relief.

ANSWER:

Section 201 of the Trade Act of 1974 provides relief from injurious import competition. Upon a finding of injury (or threat thereof) by the United States International Trade Commission (USITC), the President may grant relief to the affected U.S. industry in the form of increased duties, quotas or tariff rate quotas on imports or may negotiate orderly marketing arrangements. Relief granted under Section 201 must be temporary (initially no longer than five years with a maximum extension of an additional three years) and encourage adjustment to new competitive conditions. Countries affected by these import relief measures may be able to file for compensation under the terms of the GATT agreements.

A section 201 case may be initiated upon petition by an interested party representing the industry. An investigation may also be initiated upon request of the President, the United States Trade Representative (USTR), Congressional Committees or the U.S. International Trade Commission on its own motion. The most common form of initiation begins by the filing of a petition of eligibility by industry representatives. Therefore, the Department of Commerce does not invoke or initiate Section 201, although the Department supports Section 201 as being an important component of our trade laws that has evolved to deal with problems of severe import competition.

Upon initiation of a case, an investigation is undertaken by the USITC to determine whether an article is being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or the threat thereof, to the domestic industry in question. The USITC has completed 52 investigations under this provision during the ten year period ending December 31, 1984. Relief was recommended by the USITC in 31 of these cases. In 16 of the 31 affirmative determinations, some form of relief was provided by the President. Adjustment assistance accounted for five instances, and import relief in the form of increased duties, quotas, or orderly marketing agreements was provided in 11 cases. In 1984, five cases were investigated by the USITC, involving the footwear, stainless steel flatware, tuna, unwrought copper and carbon steel industries. Import relief was recommended by the USITC in the cases of copper and steel. The President has undertaken negotiations for voluntary restraint agreements with major foreign steel suppliers in order to counter import surges that, in part, were the result of foreign government subsidies. The recommended import relief for copper was rejected primarily because of potential damage to the U.S. copper fabricating industry.

QUESTION:

Are you familiar with S.946, a bill introduced by Senator Ford that would restrict companies producing foreign coal and importing it into the U.S. from acquiring additional Federal competitive coal leases? What is the Department's position on this measure?

ANSWER:

The Department of Commerce has taken no position on Senate bill S.946.

United States Department of the Interior

OFFICE OF THE DIRECTOR

BUREAU OF MINES
2401 E STREET, NW
WASHINGTON, DC 20241

June _, 1985

Honorable John W. Warner
Chairman, Subcommittee on Natural Resources
   Development and Production
Committee on Energy and Natural Resources
United States Senate
Washington, D.C. 20510

Dear Senator Warner:

Thank you for giving the Bureau of Mines the opportunity to testify before the Natural Resources Development and Production Subcommittee on June 6 during the hearing on the domestic coal industry. We were most pleased at the chance for Dr. Hermann Enzer to appear as a witness and describe the Bureau's work in the analysis of the El Cerrejon Norte mine in Colombia.

Enclosed are the Bureau's responses to the questions which Senator Rockefeller submitted to Dr. Enzer for the record of the hearing. In addition, we have included answers to several questions which were raised throughout the hearing and which relate to the Bureau's work.

Please do not hesitate to be in touch if the Bureau may be of assistance to you at any time.

Sincerely,

Robert C. Horton
Director

Enclosure

RESPONSES TO FOLLOWUP QUESTIONS SUBMITTED BY MEMBERS OF THE
Senate Committee on Energy and Natural Resources
Subcommittee on Natural Resources Development and Production

Senator Rockefeller to Dr. Enzer

1) (a) Do we currently have a comprehensive knowledge of what our various environmental regulations on coal mines cost?

Only for the specific mines that we have studied. Since physical conditions vary with mines, the environmentally-related costs that are estimated for particular sites may not be generally applicable to all mines.

(b) Will this data be solidly developed in part 2 of the Commerce Department study in which you are participating?

Yes. In our analysis of costs at each U.S. coal mine covered in the study, the following cost categories related to environmental control will be estimated:

- The cost of preparing the environmental impact statement as part of the development cost.

- For western coal, equipment, manpower, and supplies assigned to reclamation activities (such as backfilling, water control, grading, highwall reduction, topsoiling, planting, revegetation, etc.) are identified and their costs calculated. Plans detailing what and how these reclamation activities are performed must be approved by an appropriate government agency, for example by the State of Montana for mines located in its jurisdiction. We plan to develop equivalent cost detail for the actual coal mines being evaluated in West Virginia and Kentucky.

- A reclamation fee as required by the Surface Mining Control and Reclamation Act (SMCRA) of 1977 is paid by coal mines to reclaim abandoned mining areas.

2) (a) Is it correct to say that the Colombians do not have a statutory framework comparable to the Surface Mining Act?

Yes as far as we know. However, Colombian coal mines do pay 5% of the value of coal produced into a National Coal Fund, some of which may be set aside for reclamation activities, which would make it equivalent to the SMCRA fee.

(b) Do they have any comparable environmental statutes to those required to be followed by American coal operators?

At this time, we know of no Colombian statutes governing environmental or reclamation performance. Exxon states that it is abiding by U.S. standards in its plan for operating the El Cerrejon, and to be helping local authorities develop general reclamation regulations.

Anwers to Additional Questions raised
during the Coal Imports Hearing - June 6, 1985

Senator Johnston:

Please provide a mine mouth to mine mouth cost comparison of El Cerrejon and coal mines in the U.S.

Part II of the Joint DOC/BOM study will provide such a comparison.

Senator Ford:

How much contribution did the Colombian government put into El Cerrejon?

The total capital investment planned for El Cerrejon North by 2008 is $2.662 billion, half of which is to be provided by Carbocol (which is wholly owned by the Colombian Government).

[The El Cerrejon North project is owned equally by the International Colombian Resources Corp. (Intercor), a wholly owned subsidary of the Exxon Corp., and Carbones de Colombia S.A. (Carbocol), which is wholly owned by the Colombian Government. The contract of association between the two owners, signed in December 1976, calls for equal sharing of development and operating costs as well as the coal production from the mine. Intercor's share in El Cerrejon will revert in its entirety to Carbocol 23 years after the commencement of commercial mining, which is scheduled for 1986.]

Senator Warner:

What price will Colombian coal demand when El Cerrejon is fully operational?

Part II of the Joint DOC/BOM study will provide an estimate of the cost of production and thus the minimum mine mouth price that must be received by the mine operator. Transportation charges would have to be added to determine a minimum delivered price.

Senator Rockefeller:

Are there any other existing or potential coal mines in South America providing competition to U.S. coal?

There are no major coal mines in South American at this time. Other deposits in Colombia are attracting exploration and delineation attention, however; e.g., at La Loma (by Italy's Agip, Charbonnages de France), at La Jagua (by Greenley Energy of the U.S. and Siminera of Colombia), and at the Southern block of El Cerrejon (by Mexico, Brazil, and Colombia).

United Mine Workers of America

RICHARD L. TRUMKA
INTERNATIONAL PRESIDENT

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UNITED MINE WORKERS' BUILDING
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20005

June 24, 1985

The Honorable John W. Warner, Chairman
Subcommittee on Natural Resources
Development and Production
Committee on Energy and Natural Resources
U. S. Senate
Washington, D. C. 20510

Dear Mr. Chairman:

I appreciated the opportunity to appear before your Subcommittee to discuss the impact of foreign coal on domestic coal production and employment. After the hearing you sent me several follow-up questions that are answered on the attached sheets.

Thank you for your leadership on this important issue. I hope we can forge a solution that will provide adequate protection for the nation's coal mines.

Sincerely,

Richd L Trumka

Richard L. Trumka

Attachment

Question: Mr. Ellerman of the National Coal Association claims that in "...the 1970's steam coal was imported...largely in response to actual or anticipated labor disputes. Imports peaked in 1974 and again in 1978 due to the national mines strikes in those years." Do you agree with this statement?

Answer: No, I do not agree that coal is imported largely in response to labor disputes. There have been only three strikes in the last decade but we have imported significant amounts of coal each year. For example, in the non-strike years 1979-1980 and 1982-1983 utilities purchased over 4 million tons of foreign coal. In 1981, however, when the UMWA was involved in a nationwide strike, utilities imported 712,300 tons--well below the average purchase for the 1979-1983 period.

Question: What, in your view, are the key factors causing the displacement of our domestic coal by foreign coal?

Answer: One important factor is cost. We as a society rightly impose considerable requirements on the U.S. coal industry. We insist that coal be mined in a safe and healthful manner. The actions taken to ensure that we are not causing harm to the workers raise the cost of production. Likewise, we insist that coal be mined in a fashion that does not destroy our land and water resources. Reclamation activities also raise the cost of production. Both of these additional costs --worker health and safety and environmental protection--are necessary elements of responsible mining. Many of the nations from which we purchase coal do not impose similar costs on their coal producers. Poland and South Africa have totalitarian regimes that pay little attention to the rights and interests of their workers. Colombia, a newcomer to the U.S.

market, does not impose similar social costs on its coal production. U.S. coal miners should not be forced to give up their jobs simply because other nations choose not to mine coal as responsibly as does the United States.

Question: What would you recommend be done to increase the competitiveness of U.S. coal?

Answer: U. S. coal miners are the most productive in the world. Our output per worker far exceeds that of our competitors and our performance continues to improve. For example, in the period 1978 - 1983 underground miners increased their productivity rate nearly 55 percent. Clearly, the miners are doing their part to make U.S. coal competitive. Domestically, the major way to improve our competitive position is to create an even playing field by imposing tariffs on coal that is mined under substandard conditions in terms of health, safety and the environment. In the world market, we can increase our competitiveness by taking actions to bring down the artificially high value of the dollar. The inflated value of our currency in world markets adds substantially to the cost of our products overseas and reduces the cost of imported goods.

Question: Aside from the imposition of measures that would result in restricting foreign imports, what can be done to make U.S. coal more desirable to our own utilities, particularly in the Gulf cost region?

Answer: We must adopt, and adhere to, national energy policies that recognize the folly of dependence on foreign suppliers of energy. Such policies should encourage the use of coal since this is the only domestic fuel that can provide energy independence. In order to encourage coal use effectively, we must provide some long term certainty to the users of coal about the restrictions that will be placed on coal burning. For example, companies that build new coal-fired power plants know that they will have to meet stringent New Source Performance Standards that require the use of the best pollution control technology available on the market. This provision of the Clean Air Act provides certainty to investors and guarantees the protection of public health and the environment. Other measures under consideration at EPA, however, do just the opposite. For example, the pending tall stack regulations create a great deal of uncertainty about the future viability of some power plants and the coal mines that supply them with fuel. Power plants that do not violate the National Ambient Air Quality Standards may be forced to reduce emissions further under the proposed tall stack rules -- simply because a mathematical model predicts a theoretical violation of the law. This kind of uncertainty is harmful to coal markets and tends to make coal more expensive and less desirable.

NATIONAL
COAL
ASSOCIATION

COAL

A. DENNY ELLERMAN
Executive Vice President
(202) 463-2648

June 14, 1985

The Honorable John W. Warner
Chairman, Subcommittee on
Natural Resources Development
and Production
Room 306 Dirksen Building
Washington, D.C. 20510

Dear Mr. Chairman:

I was privileged to appear, on behalf of the National Coal Association, before your June 6 Subcommittee hearing on the impact of foreign coal imports on the U.S. coal producing industry. During the hearing, and in later correspondence, I was asked to respond to several questions.

1. " Why is it cheaper to import foreign coal than to use domestic coal? Would you cite the high cost of transportation relevant to other countries as the major factor?"

As I said in my statement, foreign coals are imported by United States utilities and industry because delivered costs of these coals are, in selected instances, less than the delivered costs of U.S. coals of similar quality. These cost differentials can be the result of many factors:

o Production costs in competing countries can be lower due to differences in labor costs, and capital or equipment costs.

o The costs of meeting environmental or other regulations can be higher in the United States than in competing countries.

o Federal, regional and local taxes paid by the U.S. producer may be higher than in competing countries (a differential which will only be made wider if the proposal to eliminate percentage depletion is enacted).

o Coal production and/or transportation industries in competing countries may receive direct or indirect subsidies from their own or other governments.

o Transportation costs for U.S. coal, a high percentage of the delivered cost of coal, can be excessive especially for coal produced in a mine captive to one railroad. The costs of U.S. coal shipped via the intra-coastal waterway are higher than necessary due to the requirements that higher cost U.S. flag vessels be used.

Finally, the U.S. coal producer is competing with new coal suppliers operating large, captial intensive mines. The operating costs at these mines, once the initial capital costs are sunk, are low enough to allow the producer to undersell the U.S. or other higher cost producer and still generate sufficient income to cover cash costs.

2. "Does NCA have any case studies that break down the components of the delivered price of coal (for instance, a comparison between the costs of transportation, environmental regulation, labor, profit to the company, etc.)? Could these be made available to the Committee?"

National Coal Association has not, to date, conducted any original case study work which would result in the segregation of costs of producing and transporting coal by the specific cost components detailed in this question. If such work is done we would be happy to make results available to the Committee.

3. "What is NCA's position with regard to Export Import Bank financing of new coal production capacity abroad? "

NCA has consistently supported the concepts of international free trade. As I said in my statement before the Committee, we oppose measures such as a tariff which would obstruct free trade in coal as we believe the result would be a loss of export opportunities for the U.S. coal producer.

Free trade, however, implies that every participant is "playing by the same rules". NCA does not believe that is appropriate for governments to subsidize coal production capacity for export with low interest loans or to provide other preferences not available to the U.S. coal producer.

4. "Could NCA comment on the recently released DOE draft study *Effects of Railroad Regulatory Reform on Coal and Electricity*".

NCA does not agree with the conclusions reached by the Department of Energy's recent study on rail rates. We have prepared detailed comments on this study which are attached to this letter and which we ask be made part of the hearing record.

I appreciate the opportunity to answer these questions and will be happy to discuss these or other questions in detail with you or your staff.

Sincerely,

A. D. Ellerman

A. Denny Ellerman

COMMENTS OF THE NATIONAL COAL ASSOCIATION ON THE DOE STUDY "EFFECTS OF RAILROAD REGULATORY REFORM ON COAL AND ELECTRICITY"

The most publicized conclusion of the DOE draft study on *Effects of Railroad Regulatory Reform on Coal and Electricity* is that the study found no post-Staggers Act instances of rail rates producing excess profits or excess revenues. However, NCA found no evidence that the study even considered the question of whether coal rail rates produced excess profits or revenues.

The only rate evidence in the study concerns the *change* in aggregate coal rail rates from 1972 through 1984, and DOE concludes that aggregate coal rail rate increases have been moderate since the passage of the Staggers Act in October, 1980. Two caveats are added: 1) that aggregate data can mask the experiences of individual shippers and 2) that the new system of rate setting and regulation for railroads has been tested only under a relatively narrow range of market conditions--substantial overcapacity in both coal production and the generation of electricity. Obviously, an individual coal shipper could have coal rail rate experiences that differ greatly from the aggregate case, and tighter market conditions could greatly increase the ability of a railroad to raise its rates to a captive shipper.

Coal shippers are not simply concerned with how much aggregate coal rail rates have changed in the last 4 years; they are concerned about the rate level charged by the railroads, and about their ability to receive a fair hearing on the reasonableness of that rate before the Interstate Commerce Commission. As the DOE study points out, half of the 60 cases filed under Section 229 of the Staggers Act which are still before the ICC involve coal. (Section 229 allowed shippers six months from the date of the Staggers Act to protest the level of an existing rate.) This points out both the more limited ability of coal shippers to negotiate a settlement of rate disputes and the difficulty in getting timely relief from the ICC. Since the passage of the Staggers Act, no coal rail rate has been found to be unreasonable by the full commission. (Currently the commission has before it on appeal the one complaint case in which an ICC Administrative Law Judge found the coal rail rates to be unreasonable, and ordered reductions.)

How can a study conclude that "most of the evidence to date suggests that *actual* 'abuses' have been neither widespread nor of great magnitude" (p. VI-1), and not even look at costs, revenues and profits? DOE does admit that costs are necessary to quantify rail profits on coal and includes a chart developed by the Edison Electric Institute showing that the average operating profit on coal was 32.6 percent of the rates in 1982 compared to 18.6 percent on all other traffic. Even with this strong indication that coal rail rates are providing much more profit on *average* than other traffic, the DOE study makes no further effort to analyze the profitability of coal to the railroad, or to include any cost data in its study of captive shipper situations.

The DOE study addresses the captive shipper problem at length, discussing various factors that could possibly provide competitive pressure on rail rates. Based on the Fieldston Co. utility data and FERC plan shipment data, the study concludes that 40 percent of all coal shipped by rail has no easily identifiable alternate delivery option. However, as the study points out, "even competition for delivery to a plant site does not necessarily offer sufficient competition to ensure reasonable rates for the *entire* haul required" (p. IV-39) because of long term contracts, boiler specifications or a coal producer captive to a single railroad.

DOE studied nine sample electric utilities, divided them into "more competitive" and "less competitive" categories, and used these situations to help identify factors influencing the degree of shipper captivity. Nevertheless, the study did not go the next logical step and answer the question: what is the effect of captivity on rail rates? The study analyzes the factors causing captivity and ignores the consequences of that captivity. In its discussion of intramodal competition, DOE refers to bargaining leverage brought about by the recent opening of the Chicago and North Western line which serves some of the mines in the Wyoming Powder River Basin. Two utilities, Southwestern Public Service and Houston Lighting and Power, were able to negotiate contracts with 10 percent and 20 percent rate reductions because of the new competition with Burlington Northern. The study praises the effects of intramodal competition, but once again neglects the crucial follow-up question: what do such large reductions imply about the prior level of rates?

NCA supported the Staggers Act because it believed that it provided a careful balance between the needs of shippers and rail carriers. However, NCA is concerned about the ICC's *implementation* of the Staggers Act as the ICC has consistently concentrated on the Staggers Act goal of railroad revenue adequacy to the detriment of captive shipper protection.

The DOE study agrees with many of NCA's concerns about ICC regulation. In regard to rate reasonableness, the draft study states: "a number of definitional and procedural changes are needed to simplify implementation and improve the fairness of the criterion" (p. 15). In regard to revenue adequacy, the draft study states: "The ICC can make its 'revenue adequacy' measurements fairer and more credible too, by: 1) basing its determinations on financial data from the railroads whose form follows widely-accepted accounting principles and thus permits comparisons with business and industry in general, and 2) eliminating apparent biases in using the available data to gauge the current and future financial health of the railroads" (p. 15).

The DOE report concludes that many of the current and prospective difficulties could be resolved by the ICC's prompt and decisive action. NCA has been involved in several ICC proceedings since the Staggers Act and has seen no evidence that the ICC is willing to consider effective modification of the existing regulations to protect captive shippers. It is extremely unlikely that the present commission would institute the methods proposed in the DOE study to improve competition i.e., 1) setting a maximum reasonable rate for the captive segment of a movement and allowing the market to establish a rate on the competitive portion and 2) establishing track usage permits that would make captive segments available to other railroads at a suitable rent.

DOE believes that the regulatory problems it identifies can be corrected by ICC action, but has offered no basis for its belief that the ICC will make the improvements recommended in the DOE report. Many of the DOE suggestions have been advocated by NCA and other shippers in various ICC proceedings.

For example, in its revenue adequacy determinations railroads are allowed to include deferred taxes in the investment base, resulting in a lower calculated return on investment. The ICC approves this practice, believing that it acts as an incentive for reinvestment in the railroads. DOE suggest that the ICC review the inclusion of deferred taxes because "deferred taxes are an interest-free loan from the federal government to the railroads that ultimately must be paid and is already sufficient incentive for the railroads to invest these funds in their operations. Since neither the company's shareholders nor the investors in railroad debt issues provide such funds, they need not earn a return on them" (p. V-25). Shippers have made this same argument in revenue adequacy proceedings before the commission to no avail.

The DOE study expresses numerous concerns with the ICC's methodology for calculating revenue adequacy, and even suggests that a measure common to most business operations, return on equity, be used, rather than return on investment. This would eliminate many of the problems inherent in determining the investment base. However, the only revenue adequacy questions which the ICC is now considering relate to current cost accounting, inclusion of transportation related elements and railroad affiliates, and the use of normalized data. DOE has presented no evidence that the ICC has any intention of reconsidering the type of changes suggested in the DOE study.

In concluding its analysis of methodologies for determining revenue adequacy, the DOE study compares the allowed return on equity for a sample utility (Pennsylvania Power and Light) using utility regulations, and present and proposed ICC accounting standards. The results are dramatic. The allowed rate of return for PP&L is 12.3 percent using current utility regulations, 20.1 percent using current ICC regulations and 32.4 percent using proposed ICC regulations. These increases in the allowed rate of return would result in greater revenue requirements for PP&L, and therefore a substantial increase in electricity rates. These comparisons graphically demonstrate why shippers are so critical of the ICC's implementation of the revenue adequacy concept. The DOE study concludes from these comparisons that "the ICC might do well to reconsider both its current and proposed approaches for determining `revenue adequacy' for railroads" (p. V-34).

The DOE study thus relies on regulatory changes and increased competition for rail movements in the future. In connection with its advocacy of increased competition for rail movements, the DOE study recommends that Congress extend eminent domain authority to coal slurry pipelines. NCA strongly endorses this recommendation and has long advocated passage of such legislation because it has been shown that even the potential for coal slurry pipelines has had a competitive effect on coal rail rates.

In conclusion, NCA agrees with much of DOE's analysis of problems in ICC regulations. However, we do not believe that the study has presented any evidence as to its reliance on future changes in ICC regulations to correct the problem. NCA has seen no change in the views of the ICC, and thus has pushed for legislation to correct these problems.

In addition, although the DOE study discusses how and why shippers are captive, it never provides any analysis of the effect of captivity on shippers' rates. The lack of any cost or profit analysis of rail rates renders DOE's conclusions concerning rate abuses meaningless.

EXXON COAL INTERNATIONAL

396 ALHAMBRA CIRCLE, CORAL GABLES, FLORIDA 33134

R. C. KIDDOO
President

June 17, 1985

The Honorable John W. Warner,
Chairman, Subcommittee on Natural Resources Development and Production,
United States Senate
Washington, DC 20510

Dear Senator Warner:

Thank you for your letter of June 7, 1985 in which you ask additional questions about the Cerrejon coal project following the June 6 oversight hearing regarding the impacts of coal imports on the domestic coal industry.

In the attachment to this letter, we reply to the questions that you and Senator Rockefeller have raised subsequent to the hearing. We also respond to the question you raised during the hearing about the differential between wage costs at El Cerrejon and those at a typical U.S. surface mine of similar geology.

If you have any other questions, please call me or Mr. Jim McMillan of Exxon's Washington office.

Sincerely yours,

RCKiddoo

Richard C. Kiddoo

2792c

A DIVISION OF ESSO INTER-AMERICA INC.

QUESTIONS FROM SENATOR JOHN W. WARNER AND REPLY BY EXXON

Question 1

Many critics of importing foreign coal echo Secretary Hodel's recent remark that such coal is "very low cost coal produced under rules and restraints that are not comparable to ours from an environmental standpoint." Thus, the point is made that foreign coal has a built-in competitive advantage regardless of factors such as its quality. Please respond to this point, comparing environmental requirements at the El Cerrejon mine with those at a comparable U.S. mine.

Reply

Exxon contracted with experienced consulting firms in the area of environmental impact and conservation of natural resources, the most comprehensive study ever undertaken in Colombia in this field, at an investment of five million dollars. This study was performed over an eighteen month period, requiring over 150,000 technical and scientific man hours, resulting in an Environmental Impact Statement (EIS) which was submitted to the Inderena (the Government environmental control institution) before mobilization took place. The EIS addressed project impact assessment, mitigation recommendations, monitoring programs, detailed reclamation plans, environmental construction guidelines, and included technical appendices based on complete data collection and analyses of flora, fauna and ecological systems through a full seasonal cycle in all areas affected by the mine, 150 km railroad, and deepwater port.

The EIS was well received by Inderena and approved in its entirety in June, 1983 after a thorough review. All interim permits and licenses were awarded. An October, 1984 mission from The Beijer Institute of the Royal Swedish Academy of Sciences under the direction of Professor M.J. Chadwick from the University of York (U.K.), had access to Cerrejon's EIS, Inderena's review document and the Project's facilities and installations, concluding and citing the EIS as a potential model for large scale industrial and mining projects for developing countries. The Cerrejon North Zone Project, by complying with the highest industry standards in protecting the environment, is consistent with U.S. practice in this field and thus operates under a scenario comparable to that of mines in the United States.

Question 2

Current plans call for expanding the production level of the El Cerrejon mine to about 15 million tons per year by 1989. Mr. Trumka states in his testimony that: "If market conditions warrant, however, the production level could be greatly expanded, possibly to a level as high as 25 million metric tons per year." Is this figure (25 million metric tons/year) feasible in light of El Cerrejon's mine plan and configuration?

Reply

An El Cerrejon output of 25 million metric tons will require additional capital investment. The Carbocol and Exxon partners have not developed an expansion plan as yet and have not authorized any of the engineering studies necessary to proceed.

Question 3

What steps would Exxon need to take to bring the mine up to this level of production?

Reply

The expansion of the El Cerrejon mine to 25 million tons would require careful study, planning, and execution. Investment options at the mine, railroad and port would have to be screened in extensive engineering studies. Then a detailed engineering evaluation of the best alternative would be developed and capital expenditures estimated. Subsequently, international bidding would be held to select the prime contractor and make major equipment purchases. Finally, the prime contractor would hire and train a work force of Colombian and international personnel to construct the project facilities.

Before proceeding with an expansion, Exxon would have to feel confident that there are adequate sales prospects for the additional production in Cerrejon's primary markets in Europe.

Question 4

When would you need to begin revising the mine plan at El Cerrejon if you expanded the production level to 25 million metric tons?

Reply

Expansion of the mine would probably take at least 5 years including screening studies, planning, engineering and construction. A definitive answer on project timing would not be available until engineering studies were finished.

Question 5

Is there any reason to believe that Exxon will increase production from the current target of 15 million tons per year by 1989?

Reply

Exxon's current efforts are directed towards insuring that the mine reaches the targeted 15 million ton production level by 1989. You can appreciate that the growth from a 1985 startup to a 15 million ton capacity 4 years hence in itself represents a substantial technical and marketing effort, and we doubt that more rapid growth is feasible.

Question 6

Please provide the Committee with a list of the U.S. utilities with whom you have signed contracts for the delivery of Colombian Coal. Include the length of the contract, and if possible, the quantity of coal.

Reply

It is a matter of public record that Carbocol signed a contract with Electric Fuels Corporation, a subsidiary of Florida Power Corporation. Term: January 1, 1985 through June 30, 1989. Quantity: 550 thousand short tons per year; 225 thousand tons in 1989.

This is the only contract actually signed for Cerrejon coal into the United States.

Question 7

Are you in the process of negotiating for additional contracts with any U.S. utilities? Which utilities are these?

Reply

It is also a matter of public record that Exxon Coal International is negotiating with 3 U.S. utilities: Central Power and Light of Corpus Christi, Texas; New England Electric Systems of Boston, Massachusetts; and Jacksonville Electric Authority of Jacksonville, Florida.

QUESTIONS FROM SENATOR JOHN D. ROCKEFELLER, IV AND REPLY BY EXXON

Question 1

Currently your company is developing the Colombian mine in the Cerrejon region. I am interested though in what is known about additional coal reserves in South America:

-- Are there other potential mine sites in Colombia?

-- Are there other potential coal reserves in Venezuela, Brazil, etc.?

-- What is the total known resource in South America?

-- Who, what governments or companies, to your knowledge hold the leases or development rights on any additional coal development opportunities?

Reply

El Cerrejon is the first and only major coal export project in South America. We possess no more knowledge of other potential projects than is in the public domain. Nevertheless, we would offer some comments based on our general knowledge.

The 1978 World Energy Conference estimated total reserves of economically recoverable bituminous and anthracite coal in South America are about 6 billion metric tons or about 1% of the world total. Most of this coal is suitable only for local use. Various problems are present: inaccessibility, high ash content, and low calorific value. Despite these difficult problems, some smaller scale export projects may develop. In Colombia, Carbones del Caribe, Prodeco and possibly other small companies with limited infrastructure can export about 500 thousand metric tons per year, principally to Caribbean markets. Carbocol and two European partners have publicly announced exploration studies and an interest in eventual development at La Jagua/La Loma for the late 1990's.

Exxon has no operations in Venezuela; our knowledge about coal development activities is limited to press reports. Two developments have been reported recently. Cavovens' Fila Maestra mine in eastern Venezuela is set to begin exports of about 300 thousand metric tons to Spain in 1986. About a dozen international firms from the U.S., Europe and the Far East have submitted proposals for the development of an export project close to Lake Maracaibo in partnership with the Venezuelan state oil company; significant production is unlikely before the 1990's.

Question 2

Your current projections show what your effort will be between now and 1990. But with many American utility coal contracts, long term contracts, expiring after that time, I am interested in knowing what the plans for development are after 1990. Your brochure says that the Colombian mine is "readily expandible" beyond the 15 million ton production level. Wouldn't it be logical for you to target the American utility market to help fuel your own expansion?

Reply

We have submitted answers to questions raised by Senator Warner regarding expansion of the Cerrejon facilities. Eventual expansion would more likely be based on prospects in the primary markets for Cerrejon coal in Europe and possibly the Far East.

Question 3

What part of coal imports, now and in the future, would you attribute to utilities attempting to gain a bargaining position with the railroads, coal operators or both?

Reply

We may only speculate about why U.S. utility customers might choose El Cerrejon coal. The question is probably better asked of the utility companies. However, in an April 30 appearance before the Subcommittee on Mining and Natural Resources of the U.S. House of Representatives, Ernst Upmeyer, Vice-President of Electric Fuels Corporation of St. Petersburg, Florida, did state: "A direct result of the commitment to purchase the Colombian coal was the conclusion of extremely favorable rail rates.... Rates so favorable that it would, again, make economically feasible the delivery of coal from points as distant as West Virginia."

It does not seen unreasonable that the presence of a new competitor in markets currently supplied by high priced coal -- for whatever reason -- will intensify efforts of traditional suppliers and transporters to compete effectively.

RESPONSE TO QUESTION ON WAGE COSTS RAISED BY SENATOR WARNER AT JUNE 6th HEARING:

LABOR PRACTICES AND COSTS AT EL CERREJON MINE

Exxon's labor policies are generally consistent in all of its worldwide operations. After surveying the local market, the company establishes compensation levels sufficient to attract the best qualified candidates and to insure a stable and productive work force. In a remote area such as the Guajira peninsula in Colombia, special attention is given to safety, health care, schooling, and other life support factors, consistent with these objectives as well as local law and practice. In Colombia, the El Cerrejon project is regarded as a model of the progressive labor policy, in the tradition of Exxon's petroleum operations in that country over the past 68 years.

Exxon has operated a $5 million training center since before project startup to teach the operation and maintenance of heavy equipment in compliance with the company's rigorous standards and procedures. The typical employment pattern is: (1) recruitment of qualified high school graduates, (2) enrollment at company expense for one year in a national technical school, (3) training in the company's own school and (4) assignments for on-the-job experience and further training. Over 400 have already completed this process.

Cerrejon workers enjoy wages and benefits which are attractive and support a good living standard in Colombia. This attractive compensation package permits our workers to enjoy quality housing, food, clothing, health care and recreational facilities. As an example, even trainees earn nearly 50% above the national minimum wage. As they achieve permanent assignment in the company, workers can easily receive 2-3 times the minimum wage rate. In addition, benefits amount to about 100% of wages and include health care for the employee and his family, social security contributions, Christmas bonuses, company contributions to savings, home ownership assistance, membership in cooperative supermarkets and severance benefits. In addition to direct compensation, workers receive indirect benefits, such as subsidized food and housing, while working on the site. These wages and benefits are negotiated periodically in free collective bargaining between Intercor and the employees' labor union.

Intercor's liberal labor practices are justified by high employee morale and pride, growing productivity, and a worker turnover of about half of the Colombian average.

The U.S. Bureau of Mines conducted a study in March of 1985 comparing production costs at Colombia's El Cerrejon mine with those which the project would incur if the same deposit were being mined in Montana. Exxon cooperated in the effort. We have been advised that the study shows unit labor costs at El Cerrejon are about $2 per metric ton lower than they would be at a Montana location ($3.46 per metric ton at El Cerrejon and $5.40 per ton in Montana). This study showed average salaries/wages/benefits at El Cerrejon are about 36% of those in the U.S. Offsetting this differential, Cerrejon's productivity was estimated to be approximately 56% of that in Western U.S. surface mines.

Exxon Coal International
June 17, 1985

2707c

New England Energy

Glenn R. Schleede
President

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June 24, 1985

Honorable John W. Warner
U. S. Senate
Washington, D. C. 20510

Dear Mr. Chairman:

Thank you for the honor of appearing before your subcommittee on June 6 to discuss the impact of coal imports on the domestic coal industry.

As requested in your June 7, 1985, letter, I am enclosing responses to additional questions for the record from Senator Rockefeller. I am also enclosing comments on the Department of Energy's report on "Effects of Railroad Regulatory Reform on Coal and Electricity" discussed in DOE Assistant Secretary Vaughan's testimony. I respectfully request that these be included as a part of the record of your hearing.

Sincerely,

Glenn R. Schleede

RESPONSES BY GLENN R. SCHLEEDE TO ADDITIONAL QUESTIONS FOR THE RECORD FROM SENATOR JOHN D. ROCKEFELLER, IV

1. Your company has shown an interest in Colombian coal. For what specific reason or reasons?

Our company has no preference for foreign coal. However, we do have an obligation to our customers to obtain coal meeting the requirements of our generating plants at the lowest practicable delivered cost.

Lowest delivered cost includes the cost of coal at the mine and all transportation costs.

We have not yet purchased coal from Colombia, but information available thus far suggests that such coal may meet the needs of our plants and have a lower delivered cost than coal available to us from our U.S. sources in West Virginia, Virginia, and Pennsylvania.

Coal from foreign sources tends to be lower in cost due to a variety of factors, including:

. Lower mining cost - due to superior geologic conditions and more efficient mining.

. Lower rail rates and more efficient rail transportation.

. Lower ocean shipping cost, due principally to the ability to use foreign flag ships.

Excessive rail rates being charged by U.S. railroads are a key factor in making foreign coal economic for use in coal-rich United States.

2. In 5 years, 10 and 15, what would you expect to be your level of coal imports to fuel your plants?

In total, we expect to use 3.5 million tons of coal in 1985, but only a small portion of that will be foreign coal -- probably less than 100,000 tons. We cannot predict at this time what our use of foreign coal will be in future years. That decision will depend principally upon (i) the availability of U.S. coal meeting our then current needs; and (ii) the delivered cost of foreign coal versus U.S. coal. If very stringent emission limits were imposed in an attempt to reduce "acid rain", we might well be forced to use a high portion of foreign coal because of its relatively low sulfur content.

Whether excessive rail rates are brought under control will most likely have a major impact on the relative delivered cost of foreign versus domestic coal.

3. The DOE draft study on railroad regulation and coal movement seems to say that there is no current problem as a result of the Staggers Rail Act. To what extent would you say that excessive rail rates are causing you to look at imports as an alternative to domestic coal supply?

There is no question but that excessive rail rates are a major factor in reducing the competitiveness of domestic coal. Bringing excessive rail rates under control would be a significant step toward regaining the competitiveness of U.S. coal in both domestic and foreign markets.

The DOE draft study to which you refer has many weaknesses. Some of them are described in the attached letter to Assistant Secretary Vaughan of DOE.

4. To what extent do domestic coal rates that result from costly transportation rates make you consider purchases of oil for utility use?

New England Electric System (NEES) companies have converted 6 generating units (totalling 1460 megawatts) from oil to coal -- at a cost of nearly $300 million.

These conversions have been an environmental success and an economic success for our customers so far, since coal has been significantly less costly than oil. They will continue to be a success as long as there is a significant price differential between oil and coal. Our differential at Brayton Point, for example, has ranged from over $18 per barrel of oil equivalent in 1981 to a low of about $6.70 per barrel of oil equivalent in 1982. At present, the differential is about $8.25 -- due to a recent sharp drop in residual oil prices.

Once capital has been expended ("sunk") and conversions completed, the relevant consideration when considering whether to switch back to oil is the difference in operating costs. On average, it costs between $1 and $2 more per barrel of oil equivalent to burn coal rather than oil. Thus, the differential would have to drop to the $1-$2 range for us to consider switching back to oil -- unless some other measure forced us to stop using coal.

New England Energy

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June 24, 1985

Honorable William Vaughan
Assistant Secretary
U.S. Department of Energy
Washington, D.C. 20585

Dear Bill:

Thank you for the opportunity to comment on the latest draft of DOE's report on "Effects of Railroad Regulatory reform on Coal and Electricity".

I believe DOE is wise in soliciting comments. The report as now drafted is a strange document. It misses key points and issues; it overlooks significant data; and it does not present a good justification for many of its findings and conclusions. Yet, despite these weaknesses, it includes some excellent parts -- particularly its documentation of the problems with ICC's regulations and actions.

The study and report, if completed and corrected, could make an important contribution to the current debate about excessive rail rates for transporting coal.

I hope the comments that follow will be useful to the staff of DOE in addressing the errors of omission and commission reflected in the draft report:

1. The report largely ignores key facts about excessive rail rates.

   The report focuses almost exclusively on rail rate increases since 1980 -- ignoring the fact that rates increased by 191% from 1973 to 1982 (an average of 12.6% per year) and had already reached excessive levels by the time the Staggers Act passed.

   If all the appropriate facts were considered, the authors' search for evidence of "abusive" rates would certainly have borne fruit.

2. The report incorrectly finds that rail rate increases since 1980 are satisfactory since they have averaged "only" .5% above inflation.

   The report ignores the fact that the railroads' costs did not increase nearly as fast as inflation due to productivity improvements. Rail rates for coal should have increased much less than inflation during the period relied upon by DOE.

3. The report -- by focusing on "captive shippers" -- overlooks the fact that coal producers are often "captive".

   Our company's coal procurement and transportation situation is a good example. We have the option of using three different railroad systems to get coal from Appalachian states to East Coast ports (from which we move the coal to Massachusetts in ships and barges). We also can use coal from some foreign sources. This situation has helped us to get lower rates -- though we have yet to achieve reasonable rates (when evaluated in terms of the railroad's cost of providing rail services).

   While we have some coal source and transportation options, coal producers who have supplied us often do not have options. They are often exclusively dependent on a single railroad. The implications for a coal producer of being captive are now being demonstrated to producers in Virginia served by the Norfolk Southern's N&W Railroad.

   . The N&W's rates are by far the highest our company is now required to pay -- whether measured in terms of dollars per ton or revenue (i.e., rates) to variable costs or fully allocated costs. Rail experts studying our movements have advised us that N&W's rates are 223% of variable costs, 121% of fully allocated costs using ICC's accounting, and 176% of fully allocated costs using generally accepted accounting principles. They have also indicated that Norfolk Southern's return on equity is 48% before taxes and 26% after taxes for our coal movements.

   . We are obligated to evaluate coal sources on the basis of total delivered cost, including the cost of coal at the mine and all transportation costs.

   . Since N&W's rail costs are so high, producers served by the N&W who want to sell coal to us must try to cut their prices at the mine enough to offset the high rail rates so that their coal will be competitive.

   . Some of our coal suppliers in Virginia have been able to take enough of a reduction in their coal prices to continue as our suppliers. Others have not. Thus far in 1985, our company alone has reduced coal purchases from N&W-served suppliers in Virginia by 400,000 tons below 1984 because suppliers were not willing to cut coal prices enough to offset the high N&W rates. Thus far, the reductions have meant a loss of revenue going into Virginia of over $16 million in 1985 from our company alone. (This probably means a substantial loss of jobs in Virginia coal fields.)

. Further, the high Norfolk Southern-N&W rates will mean that coal from producers in Virginia will be less competitive for the remaining spot purchases that we will be making in the months ahead.

Following the logic of DOE's draft report, you might conclude that our company -- the shipper -- often is not "captive". However, I hope the above illustration demonstrates to you that the producers have few, if any, viable options and are "captive".

4. The report does an excellent job in documenting many of the ICC's abuses of discretion that have been cited previously by coal producers and users.

The explanations and documentation should be useful to Congress and others in making changes in the Staggers Act. For example, the DOE report (particularly Chapter V) documents:

. ICC's strained definition of "market dominance".

. ICC's highly unusual definition of "revenue adequacy" -- which has made it possible for the ICC to conclude that none of the major railroads are "revenue adequate" -- despite their obvious financial strength.

. ICC's rules which permit railroads to overstate the value of rail assets (i.e., price them at replacement value).

. ICC's failure to audit the values the railroads have assigned assets.

. ICC's rules which permit railroads to overstate their costs of capital; e.g., allowing use of current costs of debt rather than embedded costs, assuming all investments must earn the current marginal rates of return.

- ICC's rules covering unusual treatment of deferred taxes.
- ICC's allowance of the use of retirement-replacement-betterment accounting, which overstates costs.
- ICC's failure to require railroads to demonstrate compliance with principles of the Long-Cannon amendment.
- ICC's unfair requirement that shippers bear the full burden of proof in demonstrating unreasonableness of rates -- a burden that has proven impossible.

The sections of the report dealing with these issues are a strong and credible indictment of the ICC's practices -- as well as the Act that made it possible for ICC to abandon regulatory protection for shippers.

5. The report also does a credible job in demonstrating the productivity improvements that should have resulted in reductions in rates for hauling coal. (Pages III-4 to III-10)

6. The report essentially ignores inequities to electric customers.

   The report correctly points out that electric customers are unlikely to notice the effect of excessive rail rates in their monthly electric bills -- because the effect is diluted. That is, rail costs are only a part of total coal costs; coal supplies are only a part of total fuel requirements; and fuel costs are only a part of the total costs of providing electric service.

   The fact that excessive rates tend to be diluted by the time they affect customers is not justification for allowing excessive rates to be charged. DOE ignores the equity issue.

7. The report ignores the inequities to coal producers.

   Because many producers have no choice but to rely on railroads -- and often a single railroad, they are "captive" and subject to the excercise of monopoly power. Railroads have used this situation to impose excessive rates. In order to stay in business, coal producers have had to cut the price of their coal -- in an attempt to offset high rail rates -- in order to compete with others (including foreign coal) who are less subject to monopoly power.

8. The report ignores fundamental weaknesses in the Staggers Rail Act of 1980. For example:

- It fails to note that the statutory threshold for ICC review of rates -- currently 180% of variable costs -- would allow very high rates of return to railroads. According to the House report accompanying its version of the Staggers Act, rates set at 180% of variable costs allow a before-tax-return of 62%.

- It also fails to note that there was no economic justification for the thresholds set in the Act. They resulted from the fact that railroads had the political clout to get them included.

- The report seems to "commend" the railroads for not taking full advantage in recent years of the Staggers authority to increase rates by 6% per year over and above inflation. It fails to note that there is not, and never was, any economic justification for including such rate flexibility in the Act.

- The report does point out the absence in the Act of any definition of "reasonable rates".

- The report fails to point out that the Act contains no real limits on the amount of cross-subsidy that might be imposed on coal. In fact, it ignores the fundamental inequities for electric customers who are being "taxed" through high rail rates on coal to help pay the costs of transportation for other commodities.

9. Those parts of the Executive Summary labelled "conclusions" are narrowly drawn and do not deal with many of the serious aspects of the current debate over excessive rail rates. More specifically:

- The conclusion that "'partial rail deregulation' is not now inhibiting the U.S. from providing adequate supplies of utility coal" is hardly surprising. As the report later points out, there is considerable over-capacity in the U.S. coal industry. Also, imported coal is available at very competitive prices.

- Also, the conclusion that differential pricing allowed in the Staggers Act is "contributing to the improved operational and financial health of the nation's railroads" is hardly newsworthy. Most everyone who has looked at the issue is well aware that coal-hauling railroads are very healthy.

- The notation "that no modification of the Staggers Act is suggested here" but that "regulatory 'fine tuning' is in order..." is puzzling in view of what is and is not presented in the report.

The conclusions are strangely silent on the basic issues of reasonableness of rates for moving coal.

10. The report has adopted unusual standards for evidence and given new meaning to the concept of "beyond a reasonable doubt".

Apart from the errors of omission and commission, the standards of evidence used in the report are, indeed, curious. For example:

- Page 2: "The study found no evidence that railroads have imposed 'abusive' rates on coal since 1980..."(emphasis added). I would have expected DOE to look for rates that are "unreasonable" rather than "abusive".
- Page 3: "There is no clear evidence of generally excessive profits for American railroads at this point." In this case, even the authors sound unconvinced.
- Page 3: "The analysis does not indicate that railroads are underinvesting in the rail system, or that their efforts to diversify into other industries indicate 'supernormal' profits." What is "supernormal" and why is that a reasonable standard?

Probably a person accused of a crime should wish that the authors of the report would be both judge and jury. Recognizing what the authors did show (ignoring the omissions), they have given new meaning to the concept of "beyond a reasonable doubt". By analogy, you might say that they have found the body with the culprit standing over it with smoking gun in hand. Yet they would argue the culprit should go free since they didn't see the bullet leave the end of the gun barrel and enter the victim's heart!

The draft report certainly does not support the conclusions being drawn from it by various DOE and Interior officials in recent speeches: i.e., conclusions that there is not a serious problem of excessive rail rates for coal and that the Staggers Act doesn't need changing.

You have made important contributions to public policy during your more than four years at DOE. I hope you will take the time to complete the DOE study and get the report redrafted so that it is an objective presentation. If corrected, it could make an important contribution in resolving the current problem of excessive rail rates for transporting coal.

With best regards.

Sincerely,

Glenn Schleede

APPENDIX II

Additional Material Submitted for the Record

ASSOCIATION
OF AMERICAN
RAILROADS

William H. Dempsey
President

June 21, 1985

The Honorable John Warner
Chairman
Subcommittee on Natural Resources of the
Committee on Energy and Natural Resources
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

On June 6 the Subcommittee on Natural Resources held a hearing on coal imports. At that hearing there were numerous allegations that unduly high rail coal rates were encouraging the importation of foreign coal (and, inferentially, discouraging the exportation of U.S. coal). So that the record will contain accurate information on the costs of transporting coal by rail and the forces influencing the competitiveness of U.S. coal in the world market, I submit for the record this statement on behalf of the Association of American Railroads.

I would observe at the outset that the accusations about "skyrocketing" rail coal rates which the electric utility and coal industries have been voicing have been marked by an abundance of hyperbole and a paucity of facts. Typically, the "case" they make goes something like this:

First, it is alleged that the captive shipper never gets a hearing on the "exorbitant" rail rate because the Interstate Commerce Commission refuses to find that the railroad has market dominance. The fact is that since October 1, 1980 there have been decisions in 79 cases on the issue of market dominance and the railroad was found to have market dominance in 59 of those cases.

Second, it is alleged that, where the Commission has heard the case, it has never found a rail rate to be unreasonable. The fact is that in 30 of 69 cases in which the reasonableness of the rate was at issue the rate was found to be unreasonable -- and eight of those cases involved coal. (See Enclosure 1).

Third, it is alleged that, because of the two preceding allegations, rail coal rates have run up unchecked. I believe the data presented herein will show conclusively that that allegation is simply not true.

1920 L Street, N.W., Washington, D.C. 20036 (202) 835-9126

As the above numbers suggest, there have been relatively few rate cases brought before the Commission and surely one reason is the absence of any abuse by the railroads of pricing freedoms afforded by the Staggers Act. This is a conclusion easily reached by any objective examiner of the facts. Thus, in its recently issued draft study on rail coal rates the Department of Energy states:

> The study found no evidence that railroads have imposed 'abusive' rates on coal since 1980; average rail rates have increased less than 0.5 percent per year in real terms since then.... Admittedly, national statistics mask countervailing regional trends; some coal-hauling rates have decreased while others have increased. Yet, even in cases where rates have risen, the increases do not appear to have been widespread or of great magnitude.

In his testimony before your Committee, Assistant Secretary Vaughn noted that "the study examined over 25 'captive' cases identified by the electric utility industry and found only a few instances where published rates have increased as much as the 4-6 percent real annual increases allowed by the Staggers Act."*/

In a report last year to the Environmental Protection Agency, ICF Incorporated, a Washington consulting firm, reached the same conclusion:

> Railroad ratemaking gained considerable flexibility under the 4-R Act of 1976 and gained momentum with the passage of the Staggers Rail Act in 1980. As the railroads have moved further into a deregulated environment, there have been increasing opportunities to observe railroads' pricing behavior relative to the conceptual arguments presented earlier.
>
> Although many rail movements have shown substantial changes (both up and down), there is little evidence to suggest that deregulation is leading to widespread increases in rail rates above the underlying costs.

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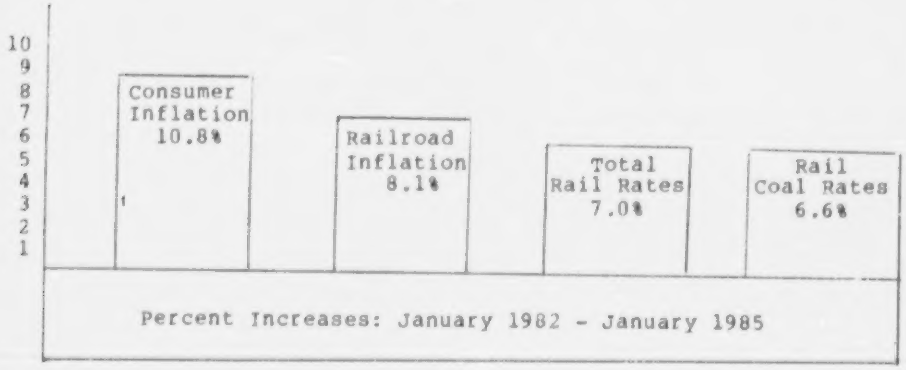
*/ At the hearing specific assertions as to excessive rates were levelled at movements to Arizona Electric Power, Houston Lighting and Power, and Pennsylvania Power and Light. These were all among the cases examined by DOE and found wanting.

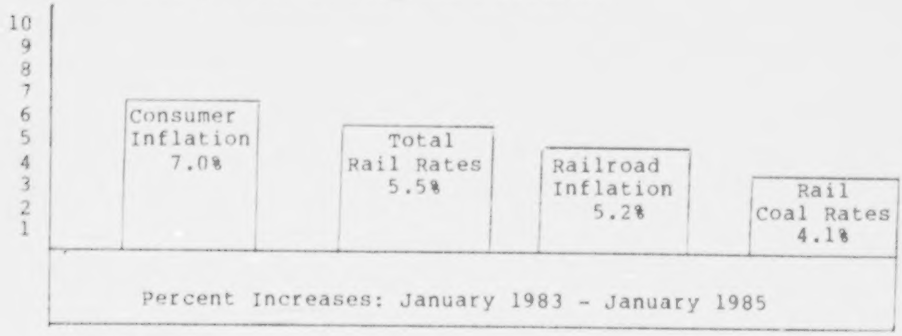
Data developed from independent sources fully confirm the findings of the DOE and EPA studies. According to the Coal Rate Index published by the U.S. Department of Labor's Bureau of Labor Statistics (BLS), railroad coal rates increased in current dollars by 27.8 percent from October 1, 1980 (the date of enactment of Staggers) through January, 1985. That increase only slightly exceeds the 25.7 percent increase in railroad rates for all commodities, the 24.4 percent increase in railroad inflation and the 23.6 percent increase in consumer inflation -- all between October 1, 1980 and January, 1985.

This comparison is even more impressive when one considers that some of the rate increases implemented during 1981 were granted by the I.C.C. in 1980 and were premised upon historical costs incurred by the railroads prior to enactment of the Staggers Act. Furthermore, with the Staggers Act only recently implemented, few contract rates had yet gone into effect by 1981. Since that time contracts between railroads and shippers have become so popular that over 24,000 have been signed and now more than 50 percent of rail coal tonnage moves under contract rates.

Allowing slightly more than a year for post-Staggers regulatory, marketing and pricing adjustments, the chart below shows that over the past three years, railroad coal rates have increased in total by only 6.6 percent, as compared with 10.8 percent in consumer inflation, 8.1 percent in railroad inflation and 7.0 percent in total railroad rates.



The record is better in the past two years: railroad coal rates increased by only 4.1 percent, compared with increases of 7.0 percent in consumer inflation, 5.5 percent in total railroad rates and 5.2 percent in railroad inflation.



In terms of revenue per ton, coal yielded $12.29 in 1984 as compared with $20.88 for all other rail traffic. In terms of revenue per ton-mile, coal yielded 2.43¢ as compared with the average for all commodities of 3.12¢ and ranked dead last among the major commodity groups.*/ While providing 23 percent of rail revenue, coal constituted 40 percent of the traffic (load on the system).

These facts show quite conclusively that market forces do indeed constrain rail rates. Further evidence is provided by the very limited use made by the railroads of their authority under Staggers to raise rates as much as 6 percent per year (reduced to 4 percent beginning October, 1983) over the inflation rate without suspension or investigation by the I.C.C. -- a fact noted by Assistant Secretary Vaughn. Increases actually taken under that authority amounted to .46 percent in 1981, 1.41 percent in 1982 and 0 percent in 1983. Given their inadequate revenues, had the market place permitted greater increases the railroads could very reasonably have taken them -- but the fact is they could not.

Since it is principally the coal and utility interests which allege that rail rates have "skyrocketed", it is instructive to compare rail coal rates with coal and electricity prices. Between 1972 and 1983, rail coal rates actually declined by 1.0 percent in constant dollars. They failed to keep pace with inflation. If rail coal rates are measured in cents/ton mile, a measurement which takes account of the fact that the average length of haul increased 66 percent between 1972 and 1983, we find that the rates decreased by 40 percent in constant dollars. In that same period, the mine-mouth price of coal increased by 19.8 percent in constant dollars -- well ahead of inflation.

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*/ At the hearing it was alleged that Wisconsin Power and Light had been charged excessive rates for coal shipments to three of its plants. Our data show that the costs of the movements to those plants in 1983 were 1.67, 1.64 and 1.62 cents per ton mile -- figures well below the 2.43 cent average for all coal movements.

Compared with the 6.6 percent current dollar increase in railroad coal rates over the past three years as shown above, the price of electricity increased by 20.8 percent through the third quarter 1984. In more stark terms, while its fuel costs (oil, gas and coal) increased by $842 million between 1981 and 1984, the utility industry's total revenues increased by $24.4 billion! Only 3 percent of the increase in revenues went to cover increased fuel costs. More than $7 billion -- or 29 percent of the increase -- went to utility investors in the form of increased dividends or increased retained earnings. Quite obviously, it is not increases in rail coal rates that are driving up electricity rates.

It is equally obvious that the peril to the U.S. coal industry posed by the threat of increasing foreign imports and decreasing U.S. exports is not ascribable to U.S. rail coal rates. It is significant to note that in the testimony before the Committee of Forrest E. Hill rail coal rates were not among the "primary factors" which he listed as those making foreign coal competitive with U.S. coal. The cheap mine-mouth price of foreign coal and the exchange rate of the U.S. dollar were clearly the two most significant factors in his judgment. Other analyses bear him out.

Enclosure 2 is a table taken from a report prepared by the Energy Information Administration comparing the costs of U.S. and foreign coal. It shows, for example, a $13 difference [*] between the f.o.b. port price of deep mined (union labor) Appalachian coal and the f.o.b. port price of deep mined Australian coal. Of that $13 difference, $12 is attributable to the mining of the coal and only $1 to the difference in rail and port costs. In the case of South African coal, the f.o.b. port price difference between it and Appalachian surface-mined (union labor) coal is $22 (totalling the addends), of which $17 is attributable to the mining of the coal and only $5 to the rail and port charges.

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[*] The table contains several arithmetic errors presumably attributable to rounding. The $36 figure shown for f.o.b. port Australia, for example, should be $37 (assuming the accuracy of the addends.).

We have calculated the effect of the increase in the value of the U.S. dollar on coal prices in the world market. Those calculations show that, based solely on changes in the exchange rates in the 1980-84 period, the export price of U.S. coal has increased 11 percent to Canada, 5 percent to Japan, 105 percent to Italy, 61 percent to the Netherlands, 98 percent to Belgium and 107 percent to France. In other words, if no other price changes had occurred, U.S. coal would still be twice as expensive in 1984 as it was in 1980 for most European importers.

In the face of these data, to ascribe threats of increasing coal imports (or declining exports) to rail coal rates as some of the witnesses before you did is sheer demagoguery. If the United States is to mount an effective response to its world trade problems -- in coal as well as other commodities -- we should take pains to approach the problem with facts rather than emotions.

I appreciate the opportunity to provide this statement for the record.

Sincerely,

W. H. Dempsey

Enclosure #1

Since October 1, 1980, there have been decisions in 79 cases on the issue of market dominance by the Commission, an Administrative Law Judge, or a Review Board.

Railroad found market dominant	59

There have been decisions in 69 cases on the issue of rate reasonableness.

Rate found to be reasonable	39 (incl. 3 recyclables)
Rate found to be unreasonable	30 (incl. 18 recyclables)

The following are those cases (except recyclables cases) in which the most recent decision found the rate to be unreasonable:

COAL

37276 (1)	Arkansas Power & Light v. BN
37338	S. C. Public Service Authority v. Clinchfield
37409	Nevada Power Co. v. D&RGW and UP
37450	Central Illinois Light Co. v. AT&SF, D&RGW, & TP&W
38184S	Pennsylvania Power & Light Co. v. Conrail
38185S	Pennsylvania Power & Light Co. v. Conrail
38186S	Pennsylvania Power & Light Co. v. Conrail
38738	Western Farmers Electric Coop. v. BN

CORN SYRUP

37478	Amstar Corp. v. AT&SF

IRON ORE

38566*	Rates on Iron Ore to Escanabe, MI, C&NW

WHEAT

37809	McCarty Farms Inc. v. BN

NUCLEAR REACTOR PARTS

37625	Westinghouse Electric v. AT&SF

*Court of Appeals decision pending.

All others listed above are not administratively final, except Nos. 37338, 37450 and 37625, which have been dismissed.

June 11, 1985

1. Number of complaints in which railroad was found market dominant:

Administrative Law Judge decisions	40
Review Board decisions	8 (3 reversals of ALJ)
Division 1 decisions	1 (reversal of ALJ)
Entire Commission decisions	10
	59

2. Number of complaints in which railroad found not to be market dominant:

Administrative Law Judge decisions	6
Review Board decisions	9 (all reversals of ALJ)
Division 1 decisions	1 (reversal of ALJ)
Entire Commission decisions	4 (2 reversals of ALJ)
	20

3 Number of complaints in which rate was found to be unreasonable:

Administrative Law Judge decisions	21
Review Board decisions	5 (1 reversal of ALJ)
Entire Commission decisions	4
	30 (incl. 18 recyclables cases)

4. Number of complaints in which rate was found to be reasonable:

Administrative Law Judge decisions	30
Review Board decisions	3 (2 reversals of ALJ)
Entire Commission decisions	6
	39 (incl. 3 recyclables cases)

List of ALJ decisions reversed:

Category 1

37857S (RB)
38120S (RB)
38238S (RB)
38187S (Div. 1)

Category 2

37891S (RB)
37998S (RB)
38004S (RB)
38086S (RB)
38087S (RB)
38088S (RB)
38239S (RB)
38262S (RB)
38899 (RB)
38125S (Div. 1)
38412S (EC)
37466 (EC)

Category 3

37478 (RB)

Category 4

38302S (RB)
38376S (RB)

June 11, 1985

Enclosure #2

Table 4. Representative Costs of Coal
(1984 Dollars Per Short Ton)

Exporters	Mine Operating Cost	Capital Recovery	Rail and Port	F.o.b. Port	To Europe: Ocean Transport	To Europe: Delivered Cost	To Asia: Ocean Transport	To Asia: Delivered Cost
				Steam Coal				
United States								
Appalachia								
Deep 0.7 mst[b,e]	28	5	16	50	5	55	9	59
Deep 0.2 mst[d]	24	2	16	42	5	47	9	51
Surface 2.0 mst[d,e]	24	7	16	48	5	53	9	57
Surface 0.1 mst[d]	19	2	14	34	5	39	9	43
Utah								
Deep 1.7 mst	18	6	26	51	8	59	10	61
Australia								
New South Wales								
Deep 0.9 mst[d]	19	3	15	36	11	47	6	42
Surface 2.8 mst	17	7	12	36	11	47	6	42
South Africa								
Surface 4.4 mst	11	3	11	24	7	31	9	33
				Metallurgical Coal				
United States								
Appalachia								
Deep 1.7 mst[b,e]	34	3	16	54	5	59	9	63
Australia								
Queensland								
Surface 4.4 mst[d]	17	3	9	29	12	41	4	33
Surface 2.8 mst[d]	19	12	14	44	12	56	4	48
Canada								
Southern British Columbia/Alberta								
Surface 5.5 mst[d]	28	3	16	47	11	58	6	53
Surface 2.8 mst[d]	29	9	18	56	11	67	6	62
Northeast British Columbia								
Surface 5.5 mst[d]	40	15	18	73	11	84	6	79

[a] Type of mine (deep or surface) and annual production for that mine, in million short tons (mst).

[b] Union labor.

[c] New mine.

[d] Nonunion labor.

[e] Existing mine.

Note: Totals may not equal sum of components due to independent rounding.

Note: Ocean transport cost shown for Appalachia to Asia movement includes topping off at Richards Bay in South Africa.

Sources: ● Mine Operating Cost, Capital Recovery, Rail and Port, F.o.b. Port: Donald W. Barnett, "Taxation and Costs: The Competitiveness of the Australian Export Coal Industry" (April 1984). ● Ocean Transport: Australia to Asia: *International Coal Report*, various issues; Utah to Asia: Dames and Moore, *Can the U.S. Compete in the World Steam Coal Market?* (April 1984); Other: International Energy Agency, *Coal Information Report 1984* (1984).

Slurry Technology Association

1800 Connecticut Avenue, N.W. • Washington, D.C. 20009 • [illegible]

George H. Eatman
[illegible]

June 5, 1985

Senator John Warner, Chairman
Subcommittee Natural Resources
Development and Production
SD 306
Washington, D.C. 20510

Dear Mr. Chairman:

The members of the Slurry Technology Association respectfully request that this letter be made a part of the official record of the hearings scheduled for Thursday, June 6, on the subject of Coal Imports.

Since legislation granting coal pipelines the right of federal eminent domain was introduced and passed by voice vote in the Senate in 1974, the Slurry Technology Association has consistently argued and testified before numerous House and Senate committees that the lack of competition in coal haulage was going to prop up artificially high monopoly railroad prices, thereby stifling the use of American coal. Representatives of a proposed coal pipeline project from the coal fields of Appalachia to Florida and Georgia (the Coalstream Coal Pipeline Project) told this Committee as early as 1978 that the artificial barrier to market entry caused by the lack of coal pipelines' ability to obtain rights of way would eventually lead to foreign coal imports into Florida and other Gulf States. This is now happening at an alarming pace.

The potential coal pipelines can have as a competitive factor was demonstrated profoundly three years ago when, in bidding for a thirty-year coal haulage contract, the participation of the ETSI Pipeline Project resulted in a savings of transportation costs alone of over $16 billion. Although a railroad received the contract, this impressive savings would not have been possible without the competition provided by the threat of the ETSI coal pipeline.

If the Congress is serious about deterring the imports of foreign coal into U. S. markets, it must allow the competition that coal pipelines would provide to drive down the delivered cost of American coal. S. 994, The Coal Distribution and Utilization Act of 1895, introduced by Senator J. Bennett Johnston on April 24, is the appropriate vehicle. We urge this Committee's favorable consideration of this vital legislation. This legislation would reduce the electricity costs of U. S. consumers, substantially increase U. S. mining jobs which are currently depressed, and actually increase railroad coal haulage revenues.

Very truly yours,

George A. Eatman

cc: Senate Energy and Natural
Resources Committee